



## ULI Chicago's Front Stoop Series "Predictions & Trends for Urban Retail"

### A Conversation with:

Brennan Hitpas, *Managing Director, Investment*, Newcastle Limited

John Vance, *Principal*, Stone Real Estate

On January 21<sup>st</sup>, ULI Chicago members convened virtually for the Front Stoop Series to discuss "Predictions & Trends for Urban Retail". The discussion was led by Brennan Hitpas, *Managing Director, Investment*, Newcastle Limited and John Vance, *Principal*, Stone Real Estate. Highlights from the conversation are listed below.

### What happened in Retail this Year?

At this stage, retail, particularly food and beverage, (F&B) is getting crushed. Many of us who are not privy to the difficulties of the industry may see things from inside a bubble, but many retailers have been burning through savings for close to a year, trying to stay afloat. For many, the intent going forward is to be able to hang on for the duration of 2021, which panelists agreed is likely to be another hard year. Provided they can manage this, retailers will be poised for exciting years beginning in 2022. From the landlords' perspectives, 2020 has been about keeping occupancy stable. Panelists were divided between those optimists, who told positive stories of partnership with their tenants, and spoke of the openness and honesty of their clients in the face of the collective struggle, and those who anticipated many more business closures to come. Overall, panelists agreed that COVID has served as an accelerator of the trends that have been observed recently (ex: reduced traffic in Mag Mile; JC Penney Bankruptcy). When it comes to F&B, Mr. Vance stated that controlling hard corner space will be key to offer significant outdoor dining space. Mr. Hitpas opined that retailers willing & able to pay non-discounted rents will be at an advantage.

### Where do you see Equity/Availability?

Panelists agreed that a current strategy among tenants has been to tie-up new spaces early, in exchange for delayed openings. This means that those willing to sign a lease in 2020 might be given a few years of rent leeway. Landlords are reportedly willing to be flexible, provided tenants are serious and show concrete ramp-up plans.

The panel then turned to discussing areas of activity. Southport and Armitage were notably mentioned, as seeing continued demand. However, the mostly shuttered Magnificent Mile drew consensus as a problem child. With 455k SF of rentable space, most of which comes in 20-25K SF increments across multiple levels, demand is just not there. Panelists agreed that in order to be viable for the future, the Mag Mile spaces must undergo radical changes. Lower-level spaces should be divided to fit smaller-scale demand (retailers currently looking for 2-3K SF spaces), and upper levels should be considered for residential conversion. However, panelists agreed that the lack of accurate data along the avenue is an obstacle to making any real predictions.

### Opportunities for the Future?

A latter discussion between panelists addressed the trust-building exercise that COVID is imposing upon landlords and tenants. An attendee asked whether panelists were aware of variable rent structures, and they seemed to agree that this idea was not likely to be looked on favorably, unless tenants were willing to "open their books" to landlords. Mr. Hitpas mentioned a current restaurant deal for which the tenant would sign a ten-year lease starting at a discounted rate, with a market reset being assumed in year 6.

Panelists additionally observed on the strength of single-tenant retail comparative to multi-tenant, the resilience of the suburban downtown markets, and the growth potential of ghost kitchens. They concluded the discussion by saying that this crisis had proved itself to be an opportunity for new growth and innovation, and that the inherent resilience of our society promised exciting and profitable years to come.

Summary written by Joe De Larauze, *Real Estate Analyst*, KMA Companies.