



# Valuation Services, PLLC

## Commercial Real Estate Appraisals

### THE RETAIL APOCALYPSE AND TUCSON – 5-2018

We have all been hearing about the “Retail Apocalypse” and have witnessed the ghost towns that were once shopping malls throughout our country. In this article we ask the question, how does this impact Tucson and is it all bad?

Tucson is uniquely located near the US-Mexico Border, a huge benefit for the local retail industry. Tucson is being impacted by the shift in the retail industry, but fortunately was not over developed from 2004-2008, during the real estate boom. There has been some shake-up with some big-box retailers and older restaurant models. However, the market has gradually been shifting with retailers changing with the market. The Tucson and national retail market is discussed in the following paragraphs.

#### **Mexico Shoppers**

Tucson benefits with a large percentage of shoppers from Mexico. Shoppers from Mexico are a boon for the Tucson retail economy. An article in the AZ Daily Star dated March 24, 2016, reported that well over 50% of the license plates at the Tucson Premium Outlets were from Mexico. An article from Arizona Public Media, dated April 17, 2017, reports that economists estimate 30% of Tucson’s retail sales are to Mexican shoppers. Overall, the range of retail sales from Mexico is from 30%-50%, which is substantial for the local economy.

#### **Closings**

There are national retailers in Tucson that are downsizing or closing such as Sears, Toys “R” Us, and GNC. Sears is closing their Park Place Mall Location, which is about 250,100 square feet. However, about 44,000 square feet is anticipated to be occupied by the Round One Entertainment Bowling and Amusement Center, which will be occupying part of the former Sears Store and will include 12-14 bowling lanes, billiards, ping pong, darts, karaoke, arcades and food/bar service area.

The three Toys “R” Us stores and two Babies “R” Us stores will also be closing by mid-2018. GNC reported in April that they will be closing 200 stores nationwide, but it is not known which stores they will be closing.

#### *Local Establishments*

The Golden Pin Lanes Bowling Alley on Miracle Mile is planned to be reconfigured as medical clinic for Pima County. Shall We Dance, a local dance studio is also closing their doors in the summer of 2018.

## *Restaurants*

The restaurant industry is also experiencing a market shift with national restaurants closing stores nationwide. These restaurants include Subway, Applebees, and McDonald's. Subway announced they are closing 500 locations nationwide in April of 2018. McDonald's announced they are closing 900 stores worldwide in 2018. Applebee's is closing 60-80 locations, and IHOP is closing 30-40 locations. Locally, Twigs Bistro and Martini Bar closed their Tucson Mall location in May of 2018. Other local restaurants that closed in 2018 are Chuy's Mesquite Broiler in Rita Ranch and Opa! Greek Cuisine and Fun on Campbell Avenue. However, others are expanding, such as Serial Grillers.

## **Future**

Retailers such as Walmart and Macy's have increased their online presence. Obviously, Amazon is setting the bar high with fast delivery, online systems, competitive pricing, and cashier-less stores. Restaurants and retailers have been moving to more interactive experiences. Dave and Busters, Lucky Strike, The Yard, and Round One Entertainment offer games, food and drinks. Funtastics in Tucson is going to renovate their entertainment center and replace their batting cages with a new water playground. The fitness industry has been expanding with gyms and specialized spaces for yoga, cross-fit, boxing, and personal training. In general, big box stores have been shrinking their store size, such as Nordstrom's, Kohl's, Best Buy, Walmart, and Macy's.

Amazon is planning a fulfillment center in Tucson that will be 2.3 million square feet, more than double the largest building in Tucson, the Target Distribution Facility. This fulfillment center will employ about 1,500 people and will allow for faster service. Amazon is also expanding their cashier-less grocery stores that should help the flow in the store. Other retailers could implement cashier-less stores to improve the flow and improve the shopping experience.

An article published in the AZ Daily Star in May of 2018 talks about how Tucson only has one ice skating rink for the entire city, well underserved. Meanwhile, Phoenix has 13 ice rinks so Tucson hockey teams and ice skaters are often forced to travel north. This could be a great opportunity for a local entrepreneur or public entity.

## *Malls*

The local malls seem to be doing fairly well with the exception of the Foothills Mall. Tucson Mall and Park Place have high occupancy levels. La Encantada as a lifestyle center in the more affluent area also has strong occupancy and rents. Tucson Premium Outlets in Marana is also succeeding but at the cost of the Foothills Mall, which is nearby and older. Nationally, malls are moving to more of a lifestyle format with outdoor corridors allowing quick access and less heating and cooling expenses. Regional malls that are not succeeding have been repositioning in the market, some of the vacancies nationwide have been filling with fitness centers, call centers, medical clinics, churches, event spaces, art galleries, and educational centers. Some of the vacant anchors have even been turned into apartments. Most regional malls that are suffering are not 100% vacant and becoming mixed use in nature, with emphasis remaining on retail. The large

parking lots are also serving as auto dealerships, farmers markets, car shows, and other events. There is not a one size fits all for struggling malls but capitalism is succeeding at fixing the problem.

## **Conclusions**

Tucson has an advantage over most cities, benefitting from affluent Mexico shoppers. The retail market continues to shift from brick and mortar to online. This trend is expected to continue. Other trends are that retail is becoming more interactive, cashier-less stores, and repositioning regional malls. Overall, these changes and a high level of competition will benefit the consumer.

\* Sources include CoStar, AZ Daily Star, Arizona Public Media, PwC, and Real Estate Daily News