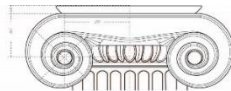




THE FUTURE OF RETAILING

What it means for local revenue
What it means for the land use environment

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The Online Paradigm

- The advent of online retailing has dramatically changed the retail environment (Amazon changed the world of US retailing)
- Now niche businesses are copying Amazon's model
- Other savvy retailers watched Amazon and created good websites and upped their online game quickly

 amazon.com

 verstock.com
 wayfair
a zillion things home

 Walmart



 COSTCO
COM

The Backstory

- In some instances development was spurred by competition between cities and public financing incentives were used to create development that might otherwise may not have happened
- Retailers in many categories built stores that local markets often couldn't support because population growth didn't support the square footage being built
- Decisions to build a new store were often rooted in a market assumption that a portion of the sales could be “stolen” from competition instead of market growth

The Backstory

- Similar retail concepts proliferated in various categories all selling the same things: *These are gone; These are on life support*
 - Small appliances and soft goods (Bed Bath & Beyond, Home Goods, **Linen & Things**)
 - Electronics (Best Buy, **Circuit City**, **Ultimate Electronics**, HH Gregg)
 - Books & music (Barnes & Noble, **Borders**)
 - Home Improvements (Home Depot, Lowe's, **Home Quarters**, **Builders Square**)
 - Apparel (**Gap**, **A&E**, **Limited** and others “in the wings”)
 - Toys (**FAO Schwartz**, **Children's Palace**, **Toy's 'R Us**)
- Result was too many retailers serving a given market
- The US has more retail square footage per capita than any other developed country (by a wide margin)

See Wikipedia: List of Defunct Retailers of the United States

The Backstory

- The development community called these niche retailers “category killers” but “cannibals” might have been a more appropriate name
- They all thought they could differentiate themselves from each other and ignored market growth factors
- They were really the same (and Wal-Mart, Target, and Amazon were selling many of the same things)
- The developers would build if the retailers would sign leases and banks would lend

The Backstory

- A tectonic shift in consumers' lifestyles and the way consumer shopping has occurred – The number of malls are national problem

The evolution of mall development is amazing



Source: Smithsonian Magazine

Mall traffic declined 13% 2016 over 2015 and has continued to fall.

The Backstory

- Changing consumer habits are not limited to impacts on retailers – chain restaurants are also in trouble
- They also suffer from too many in a market and people's eating habits are changing
- Restaurants that have local connection, unique & popular menu items, and are destinations (local microbreweries for example) are doing fine
- Certain fast food and fast casual are also doing well and growth in prepared foods from the grocery deli counter has been surprising



The Backstory

- The proliferation of grocery store venues will result in the same type of overbuilding that has negatively impacted other retailers
 - Lucky's, Trader Joes, Fresh Thyme, Whole Foods, 365, Ruler, were non-entities to most people 5 years ago
 - Wal-Mart's Neighborhood Market is a recognition that, on average, 58% of the sales from their Super Centers is from the grocery store side of a 120-150,000 sq. ft. building
 - The other side of their 120K sq. ft. store is primarily selling merchandise that doesn't represent the same level of repeat shopping or represents merchandise that people are buying online (we believe these stores will get smaller)
- Amazon just bought Whole Foods!

The Backstory – Other Trends

- Other stores are going away as a result of mergers and acquisitions (the list keeps growing daily)
- The Bass Pro buyout of Cabela's may have contributed to Gander's Mountain's second bankruptcy
- Staples wanted to buy the Office Depot/Office Max entity (itself a merger) but Staples is now looking for a buyer
- These have and/or will result in store closures
- In metro markets, Sam's and Costco capture sales from many other niche retailers, particularly in the upper income demographics that can afford a \$300 - \$400 trip through their cash registers

The Backstory

- Don't forget the outlet malls – these are presently popular because people think they are getting a deal (particularly on high end goods normally found in department stores)
- Much of the merchandise sold in these stores is not overstock merchandise and, in many instances, are items of reduced quality or features (particularly with clothing) made specifically for these stores
- Even some of the high-end retailers (i.e., Ralph Lauren, Michael Kohrs) who had largely survived the “sales crater” are closing stores (both “outlet” and mainline type facilities)

The Fallout

- Only the strong and nimble (and online-savvy) will survive



- The surge in online retailing and overbuilt markets has meant that the demand for “brick and mortar” stores at sizes that presently exist is rapidly decreasing

The Fallout

- Changing demographics and shopper trends have rendered some types of development and some types of development models and stores no longer relevant; i.e.:
 - The enclosed mall
 - Strip centers anchored by big boxes and junior anchors
 - Gordman's, Ross, and maybe Big Lots and others selling close out or manufacturer excess inventory thanks to Overstock.com
 - Furniture stores may be impacted by online retailers such as Wayfair
- Regional malls and strip centers often fuel retail development a mile in either direction of their location
- The loss of these big stores which drive traffic can have a major ripple effect within a retail corridor

The Fallout

- Mall and strip center owners are often left “holding the bag” from the retailer closures and bankruptcies; therefore, the loan default rate on developments continues to rise (mall owners such as CBL and Westfield have ceded nearly \$500 million in property (and the associated loans) back to the lenders)
- Westfield has now sold all their US properties to a foreign owner.
- The top 10 retail loan delinquencies across the US as of the end of Q1 2018 total nearly \$1.3B
- A look at current retailer stock prices provide an indicator of those that are in trouble

The Fallout

- The bankruptcies and closures aren't over with some of the major retailers on life support (Sears and K-Mart), and others (Toys 'R Us, Bon-Ton Stores) just filed for bankruptcy
- Total store closures in 2017 totaled 105k; Q1 2018 totaled 90K
- The typical mall retailers are also failing (bebe, Payless, The Limited, Wet Seal, Crocs, Rue 21, etc.)
- A review of current stock prices will provide an insight to the current state of some of the retailers
- Vacant spaces will be difficult to fill (particularly in malls)

The Fallout

- Replacement uses probably won't produce revenues at the same level (or in the case of institutional uses such as medical uses and schools and universities) won't produce direct revenue at all)
- Some high-end retailers that had demonstrated immunity are now finding that the wealthy want deals *(WSJ, April 17)*
- Now there are online retailers (Farfetch.com, Matchesfashion.com) that are competing in high-end merchandise along with shops run by individual brands
- For example, Coach, Ralph Lauren stores (particularly at outlet malls) are competitors to Neiman, Saks, Nordstrom, etc.

The Future

- Retail stores won't go away but they often won't be as big or carry the full line of merchandise
 - A sign at the display or rack will say *“additional styles (or colors, sizes, etc.) are available on our website at storename.com and can be delivered to your home or our store; see an associate for assistance”* (Some are already doing this; Wal-Mart will give you a 10% discount for delivery to the store)
 - The store will be more like a showroom carrying less inventory on site and therefore needing less space
- Bricks and mortar stores will not go away
 - People will not buy some things online
 - Seeing and feeling certain things is critical to the purchase
 - It's no accident that Amazon is opening stores
 - Some off price retailers (i.e. TJ Maxx, Marshalls) are doing well (shoppers come back because the merchandise is always changing)

The Future

- Wal-Mart and Target both discount items bought online and delivered to a store instead of your home (they have trucks already coming to the stores and this brings people into the stores). Amazon bought Whole Foods and now you can have your items delivered there.
- Grocery stores are becoming “grocerants” where in addition to a deli department, there are restaurants, dining areas, wine bars, and even microbreweries within the store*
- In-store dining and prepared food takeout has increased nearly 30% since 2008 (total market for 2017 estimated at \$3B)*

* Heartland Real Estate, May 2017

The Future

- Retail uses will be a component of mixed-use developments where restaurant and entertainment uses will be a larger component
- Millennials want an “Experience” with their shopping – although “experience” to this demographic can change in a heartbeat and they aren’t loyal customers
- Within a given region or metro area, the number of locations of a particular retailer will be fewer; stores will be smaller
- Outlet malls will remain popular
- We won’t see a retail apocalypse but the shift will be monumental, over an extended period, and not look like it does today

The Fallout from Lost Sales Tax Revenue: Understanding and Managing Impacts to Your Community

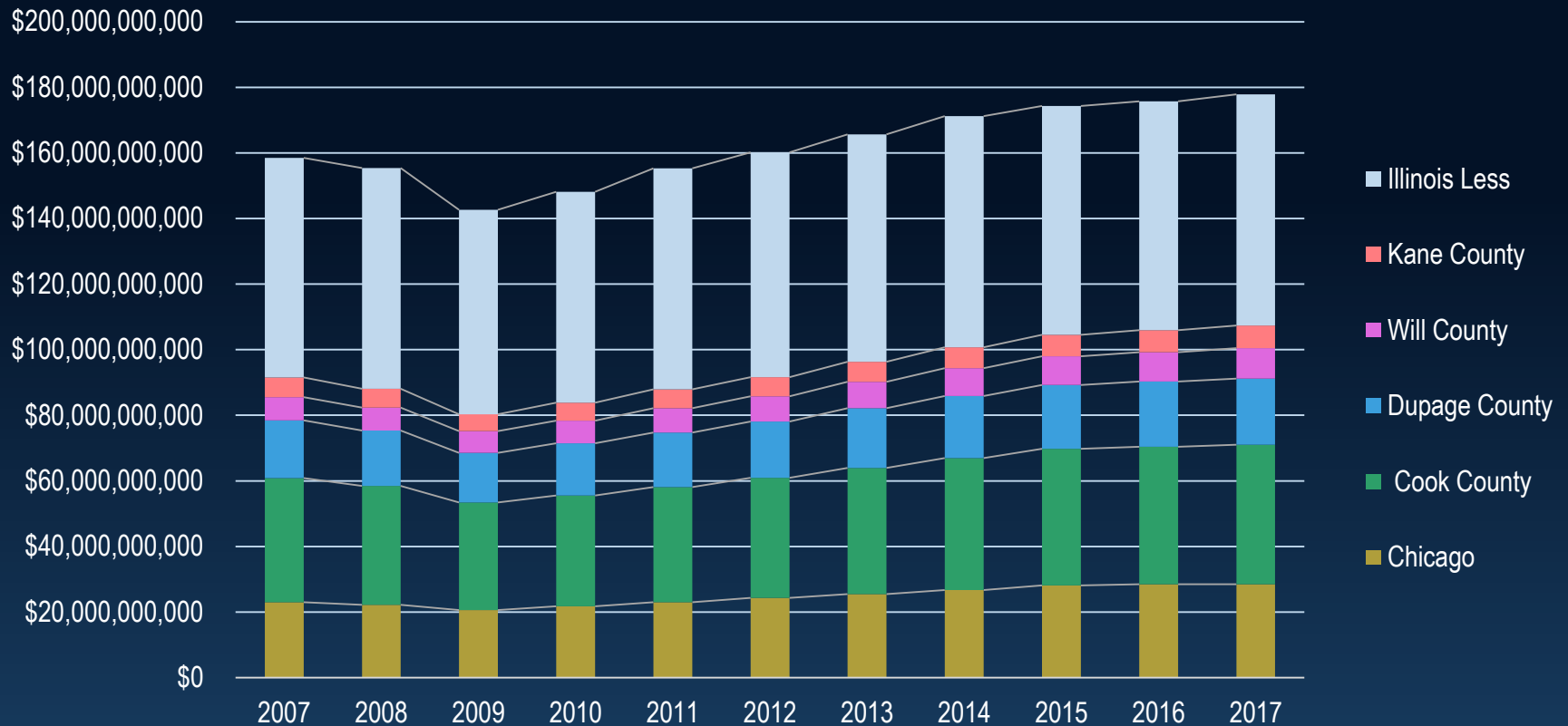
- Jennifer M. Tammen, Municipal Advisor/Principal
 - Ehlers

Some Background

- In Q3 2017, 38 states reported increases in state sales tax collections
 - Seven states, including Illinois, reported declines
- This is happening in an overall reasonably good economy with and national unemployment rate at about 3.8% (June 1, 2018), the lowest in 10 years.
 - Illinois 3.6%; Chicago inner ring counties 2.8%-3.8%; Metro East: Washington, Monroe and Clinton Counties 2.0%-2.6%; Fayette over 4%
- GDP has been growing for eight straight years
- Gas prices are relatively low, but are higher than 2016

Historical Retail Sales – IL and Chicago Metro *

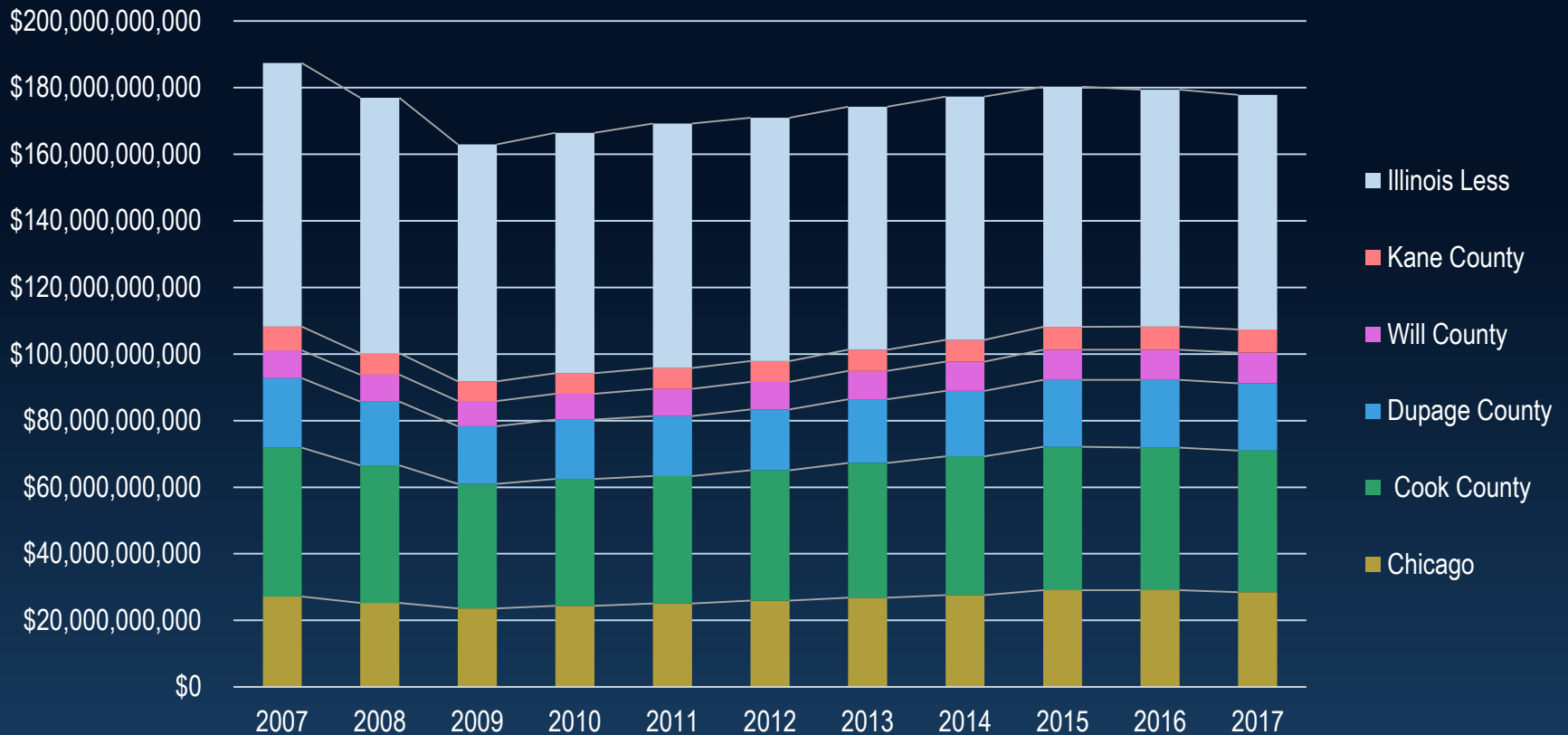
Total Retail Sales 2007-2017 (2017 Dollars)



* Sources: Melaniphy & Associates 2018 Retail Sales Report, Illinois Department of Revenue , and Ehlers

Adjusted Retail Sales to 2017 Dollars*

Total Retail Sales 2007-2017 (Adjusted to 2017 Dollars)



* Sources: Melaniphy & Associates 2018 Retail Sales Report, Illinois Department of Revenue , and Ehlers

Impacts of Reduced Retail Sales to Communities



- Sales Taxes
- Jobs
- Tax Base
- Income Taxes (from job loss)
- Licenses and Fees
- Cuts to State and Local Services



- Vacancies
- Obsolete Structures
- Property Taxes (on other properties)
- Income Taxes (on the employed)
- Other taxes and fees

What You Can Do Now

- (Financially) plan for the worst
- Advocate for E-Fairness
- Assess market conditions and property inventory to identify the right re-use and redevelopment opportunities



Why Prepare a Financial Management Plan?



How Can a Financial Management Plan Help Your Community?

- Develop a Baseline Scenario:
 - Assess capacity of existing funds and other resources to complete projects
 - Identify funding gap
- Explore alternative funding options to address anticipated flat or decreasing revenues (such as sales taxes) and on going operational and capital needs

Goals

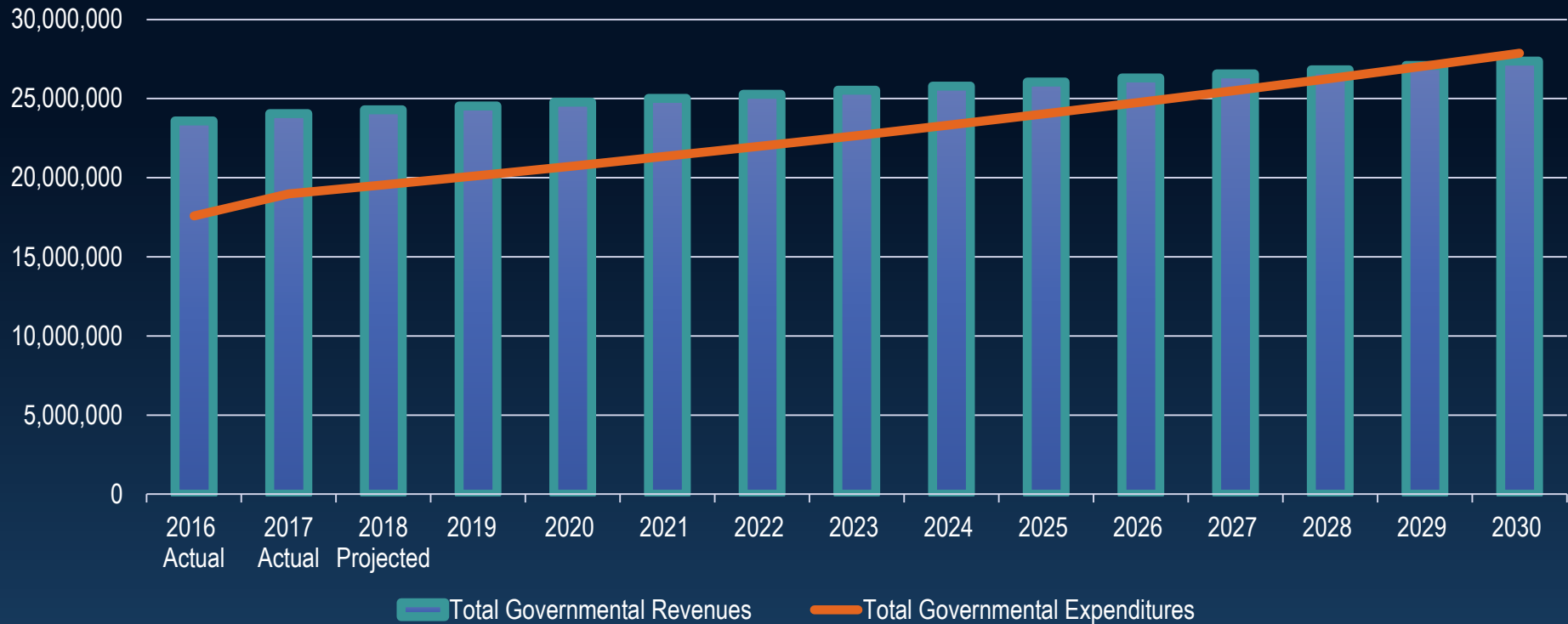
1. Develop Long-Term Financial Sustainability
2. Preserve Physical Assets
3. Anticipate Timing and Size of Tax Levy and/or Fee Increases
4. Measure Tax Impacts on Property Owners

Hypothetical Community: Mall Town

Current Projected Financial Position

Total Governmental Revenues and Expenditures FY17 Actual (Projected 2018-2030)

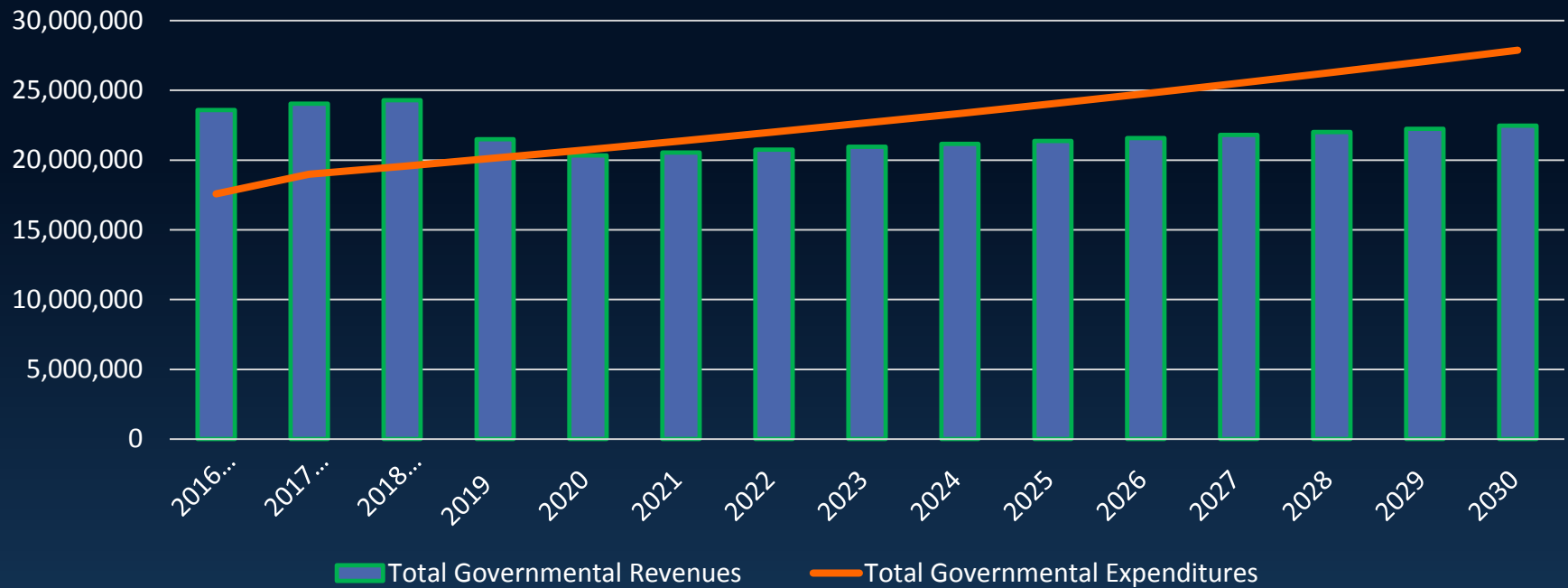
Mall Town: Total Governmental Revenues vs. Expenditures



Sources: 2017 Village CAFR, Village Finance Department, Ehlers

Mall Town: Projected Financial Position After Mall Closes in 2019-2020

Mall Closes 2019-2020



- Estimate loss of approximately 30% of total sales tax revenue
 - 5% from Mall
 - 25% from surrounding retail

Options for Addressing Projected Deficits

Non- Home Rule

- Reduce expenditures
- Raise property taxes (referendum required)
- Increase sales tax for capital/infrastructure improvements or property tax relief (referendum required)
- Business District Sales Tax, Hotel Tax
- Increase utility taxes
- Increase fines and fees where applicable

Options for Addressing Projected Deficits

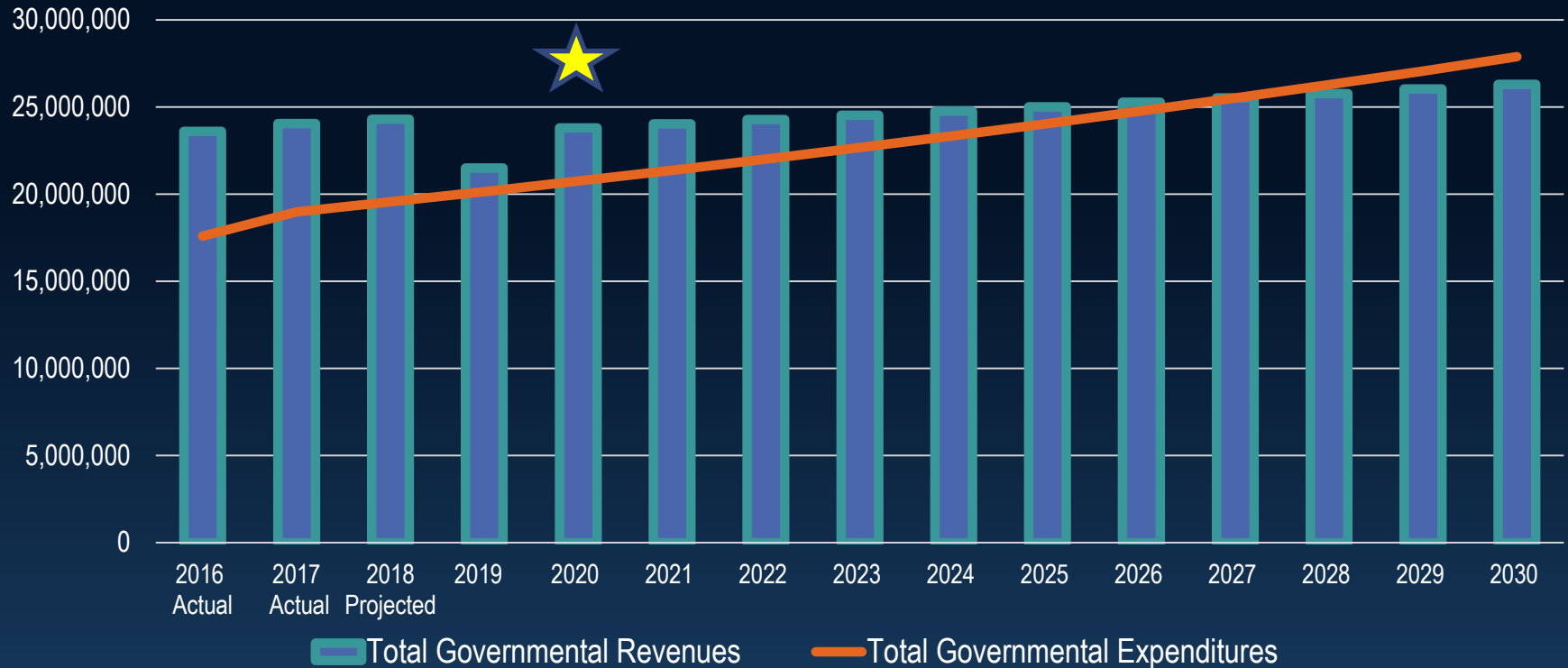
Home Rule

- Same as Non-Home Rule with exceptions
- May increase property and sales taxes without voter approval
 - May increase sales taxes in 0.25% increments for any purpose
- Home Rule Sales Tax, Business District Sales Tax, Food and Beverage Tax, etc.

There is not a one-size fits all approach. A comprehensive financial plan can test multiple scenarios to determine best course of action for the community.

Addressing Structural Deficit from Lost Sales Tax Revenue

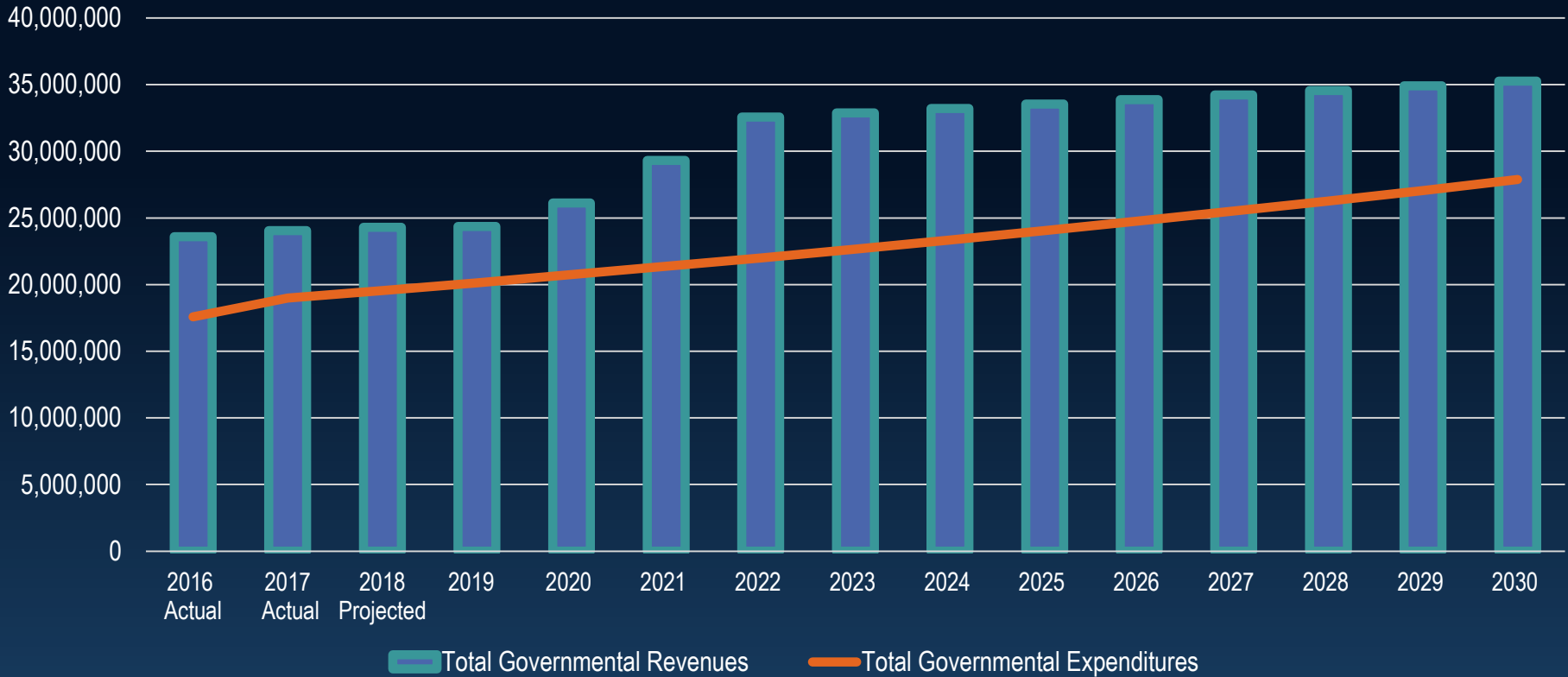
Mall Closing and One-Time Property Tax Increase in 2020



Sources: 2017 Village CAFR, Village Finance Department, Ehlers

Addressing Structural Deficit from Lost Sales Tax Revenue

Incremental Property Tax Increases FY 2019 - 2022



Sources: 2017 Village CAFR, Village Finance Department, Ehlers

Sales Tax Fairness/E-Fairness – What is it?

- Physical retailers must collect sales taxes at the time and place of purchase whereas online retailers are exempt from this requirement
- These taxes are legally owed but seldom paid



Quill Corp. v. North Dakota

(1992, U.S. Supreme Court)

- S.C. ruled a state cannot force a business without a physical presence in the state to collect sales taxes
 - Regulations too complex for sellers to determine how much to collect unless doing business locally
- Amazon.com used this ruling in order to justify not charging sales tax on its online sales, which give it a competitive advantage over retailers from 1995 until 2012, when pressure from states made Amazon collect sales tax in some of the states.
- The result is that states and local governments are prohibited from enforcing existing sales and use tax laws on the growing number of out-of-state sales. Consumers are responsible for paying sales taxes directly to the state, which is not enforced.

South Dakota v. Wayfair, Inc., Overstock.com, Inc. and Newegg, Inc.

(2017, U.S. Supreme Court)

- Goal is to “kill-*Quill*”
- State law that requires online merchants with more than \$100,000 in annual sales to state residents or 200 transactions with state residents to collect sales tax.
- States, local brick- and-mortar stores and interstate commerce are being harmed by *Quill* primarily due to loss of sales tax which is exacerbated by increased online shopping
- No longer a burden for out-of-state vendors to determine the appropriate state and apply the correct sales tax; processes are readily available
- Case argued before Court on April 17, 2018
- Ruling expected by end of June, 2018

Sales Tax Fairness/E-Fairness

- Instead of raising property taxes, states have tried to figure out ways to make Internet companies (Amazon, Ebay, etc.) collect the sales tax from online marketplaces
 - Only 9 of the 40 states that have introduced bills to get sales tax from online marketplaces have been successful.
- Estimated shortage of \$33 billion annually at state and local level

Proposed Federal Legislation

- Remote Transactions Parity Act of 2017 (H.R. 2193)
- Marketplace Fairness Act of 2017 (S. 976)

Proposed IL Legislation

- Illinois Marketplace Fairness Act of 2018 (SB 2577)

Contact Your Elected Officials

The screenshot shows a web browser with multiple tabs open. The active tab is 'p2a.co/6ofk7fm'. The page features a large image of a historic building on the left. The main content area has a dark header with the text 'Tell Congress It's Time for E-Fairness'. Below this, there are three paragraphs of text. The first paragraph states that on April 27, the U.S. House and Senate reintroduced bipartisan bills. The second paragraph describes S.976, The Marketplace Fairness Act (MFA), and H.R. 2193, The Remote Transactions Parity Act (RTPA). The third paragraph lists the reintroducers of the RTPA bill. Below the text is a photo of Melissa Palmer with the hashtag #efairness. To the right of the main text is a sidebar with a dark background. It contains a section titled 'Enter your information to take action now!' with a photo of Representative Danny Davis and a form for constituents to request cosponsorship of H.R. 2193. Below this is a section for Senator Tammy Duckworth with a similar form. The bottom of the sidebar shows a partially visible section for Senator Richard Durbin.

Chicago retail sales jump x Tax Statistics x 21st Century Retail x Sales Tax Fairness | JCSC x Tell Congress It's Time for E-Fairness x

p2a.co/6ofk7fm

Apps Chrome Panera presentation RM Tool Sign In RM Field Tool New Tab Paychex Solomon Exam Prep MyTax Illinois Performance Criteria Percentage of profit Athena - Public Prop

Tell Congress It's Time for E-Fairness

On April 27 the U.S. House and Senate reintroduced bipartisan bills that would allow states to collect taxes from residents on goods purchased online regardless of where the seller of the goods is based.

S.976, The Marketplace Fairness Act (MFA), has a small-seller exemption for annual sales of less than one million. H.R. 2193, The Remote Transactions Parity Act (RTPA), also has a small seller exemption, but sets the threshold at \$10 million per year.

The RTPA bill was reintroduced in the House by Representatives Kristi Noem (R-SD-AL), Steve Womack (R-AR-3), Jason Chaffetz (R-UT-3), Steve Stivers (R-OH-15), Lou Barletta (R-PA-11), John Conyers (D-MI-13), Jackie Speler (D-CA-14), Peter Welch (D-VT-AL), Suzan DelBene (D-WA-1), and David Cicilline (D-RI-1). The MFA bill was reintroduced by Senators Lamar Alexander (R-TN), Mike Enzi (R-WY), Dick Durbin (D-IL), and Heidi Heitkamp (D-ND).

I believe in a true **FREE MARKET** and that online-only sellers should play by the same tax rules as I do.

#efairness

Melissa Palmer
Co-Owner, ChasingPaper
Roanoke, VA

Enter your information to take action now!

Representative Danny Davis
D-IL

Dear Official,

As a constituent and a member of the International Council of Shopping Centers, I request your cosponsorship of H.R. 2193, the Remote Transactions Parity Act. This important legislation empowers

Regards,
Jennifer Tammen

Senator Tammy Duckworth
D-IL

Dear Official,

As a constituent and a member of the International Council of Shopping Centers, I request your cosponsorship of S. 976, the Marketplace Fairness Act. This important legislation empowers

Regards,
Jennifer Tammen

Senator Richard Durbin

E-Fairness Resources

- <https://www.icsc.org/advocacy/gr-issues/sales-tax-fairness>
- <https://nrf.com/advocacy/policy-agenda/sales-tax-fairness>
- <http://www.efairness.org/>

Deep Thoughts



The broader systems that change the way people shop cannot be overturned with tax breaks for new developments. The sooner we begin to think of alternate ways to create communities and jobs and reuse vacant and obsolete space, the better off our communities will be.

In other words...

If you TIF it, they may not come.

If you abate it, they may not come.

If you zone it, they may not come.

Plan and advocate for change.

**I MAY LOOK LIKE I'M
HAVING DEEP
THOUGHTS BUT
99% OF THE
TIME I'M THINKING
ABOUT WHAT I'M
GOING TO EAT LATER**

Fairview Heights, IL



Fairview Heights, IL

- Home rule municipality
- Just under 18,000 residents
- Annual budget of \$29,002,711 (\$15 million revenue from sales tax)
- More than 3.5 million SF of commercial space
- Super-regional mall, seven other centers, more than 75 restaurants and eight hotels/motels
- More than \$391 million total Equalized Assessed Value
- Brand: “the retail hub of Southern Illinois”

St. Clair Square



❑ Opened 1974

❑ 1 million + SF

❑ 140 specialty stores

❑ Anchors:

- Dillard's
- JCPenney
- Macy's
- Sears

Fairview Heights, IL

- ☐ We are Mall Town!
- ☐ One of only two cities in Illinois that does not levy property tax
- ☐ By far the biggest retail center in downstate Illinois
- ☐ Retail sales have eroded by 32% year over year during past five years
- ☐ We aggressively pursue means to redevelop properties, recycle retail locations and revitalize shopping centers
- ☐ We are developing a new, more diversified economic dev. strategy for the City's next 50 years



Fairview Heights, IL

Heard from
Urban Land
Institute
team
member:

“Retail isn’t
overbuilt; it
is under-
demolished.”



Fairview Heights, IL

Role of the City (Economic Development Dept.):

- Collaborator – matchmaker between agencies, property owners, and potential tenants
- Concierge – from the French designation for a person employed to make arrangements or run errands
- Convener – brings together all stakeholders around common goals
- Curator – from the Latin word meaning “overseer, manager, guardian” and denote one who cares for an area or subject to cultivate its continued success

Fairview Heights, IL

Activities that may help fund economic development:

- Business Districts
- Business Visits
- Enterprise Zones
- Entrepreneur Initiatives (e.g., Incubator)
- Opportunity Zones
- Property Tax Abatements
- Sales Tax Rebates
- Tax Increment Financing (TIF) Districts

Fairview Heights, IL



Fairview City Centre – August 2012



Fairview Heights, IL



March
2014

Fairview Heights, IL



December 2017



Fairview Heights, IL



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Fairview Heights, IL



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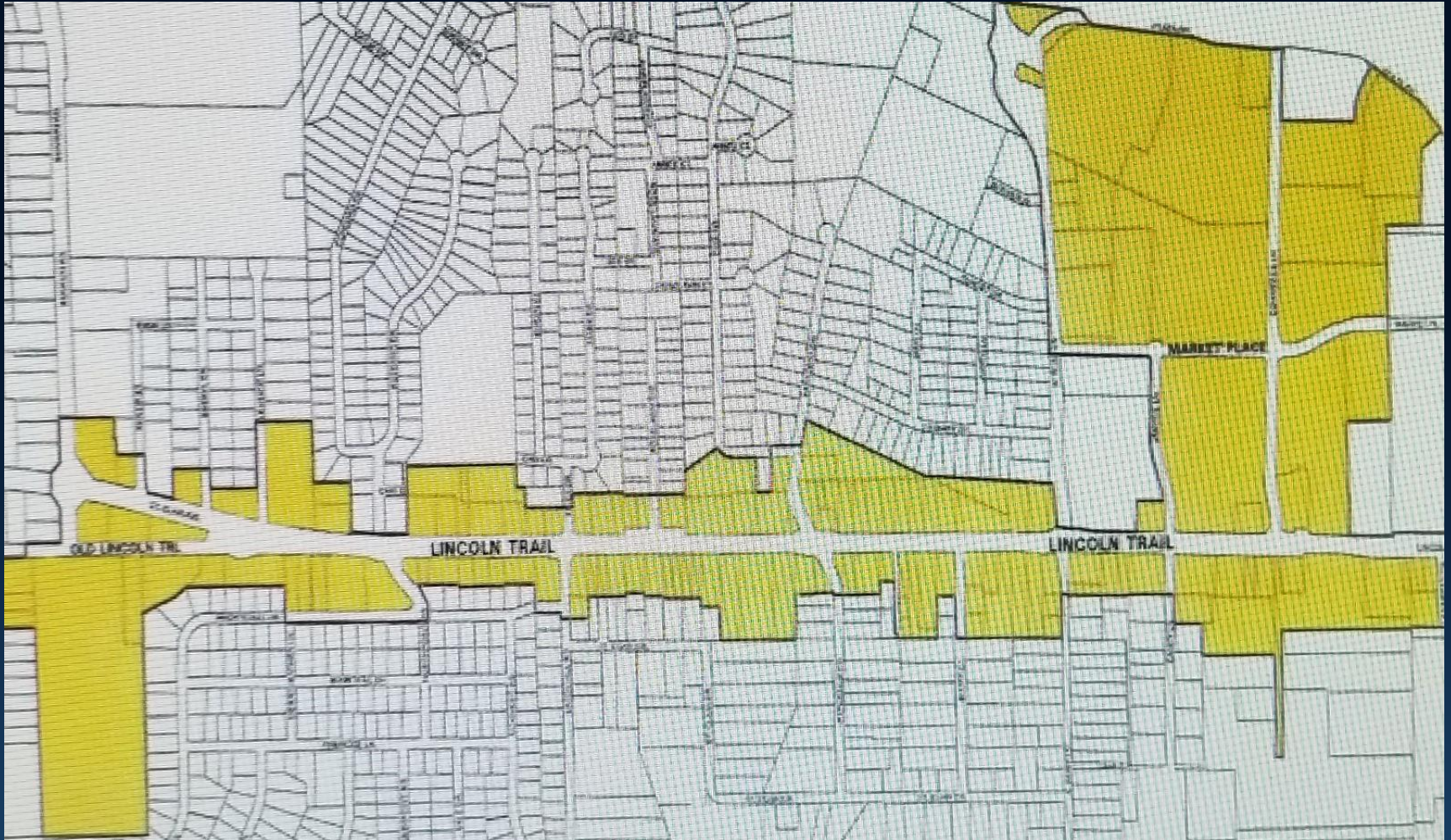
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Fairview Heights, IL



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Fairview Heights, IL



Fairview Heights, IL

- ❑ Incorporate new design standards
- ❑ Assemble smaller parcels
- ❑ Redevelop legacy properties



Fairview Heights, IL

- ❑ Four private projects (Auto Spa Oil Change, McKay NAPA Auto Parts, Meineke Car Care, Perfect Finish Auto Center)
 - \$6 M investment leveraged by \$200 K from City
- ❑ One public project (Grand Middle School)
 - \$450 K improvements leveraged by \$62 K from City
- ❑ 2500+ feet sidewalk and one bus shelter installed (ten shelters purchased for future)
 - \$360 K investment by City
- ❑ Key parcel purchased to demolish and hold for future assembly - \$130 K investment by City
- ❑ Investor attitudes beginning to change: **PRICELESS**

Fairview Heights, IL

Fairview Heights' Business Assistance Program has been selected by the St. Louis Section of the Missouri Chapter of the American Planning Association for recognition with this year's "Outstanding Best Practice" award



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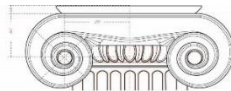
Thank You

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