

HOT MARKETS, HOT GROWTH CONCEPTS

Restaurants and retail have fertile expansion ground in certain markets

By partners of X Team International

While it's true that technology, brick-and-mortar changes, and evolving consumer behavior are causing foundational shifts in the retail industry, a closer look at different U.S. markets shows that a variety of retail and restaurant concepts are gaining footholds in increasingly fertile shopping and dining grounds.

Atlanta

In Atlanta, strong economics, robust population growth and solid transportation infrastructure provide fertile ground for retailers looking to expand. Two new lifestyle centers opened last year: Buckhead Atlanta, a high-end mixed-use redevelopment in the city's iconic Buckhead district, and Avalon, a \$600 million, 86-acre headliner in Alpharetta.

Experiential retail and showrooming (displaying merchandise with no point-of-purchase sale) have both come on strong.



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Experiential concepts like iFLY Indoor Skydiving, Top Golf, Main Event and Pinstripes are all active in Atlanta, and showrooming has established a presence with Pirch, an upscale appliance and fixture showroom

across from Phipps Plaza, and a new six-story Restoration Hardware that is more design gallery than traditional store.

Gourmet grocery is also taking off in Atlanta. Whole Foods opened two new stores last year; Fresh Market is adding three to four more locations in Atlanta; and Sprouts, a 2014 market newcomer, opened four stores last year and plans to unveil four additional locations in 2015. Next to grocery, the heaviest activity in Georgia is in sporting goods. Cabela's, Gander Mountain, Dick's Sporting Goods, and Academy Sports + Outdoors have all been active across Georgia. Dick's and Academy Sports have been especially aggressive in expanding their Atlanta presence.



Menswear retailer Hugh & Crye made its D.C. debut with a single store, and plans to open locations in up to 10 U.S. cities.

Denver

Denver continues to reinforce its status as a top new retail destination, with strong demographic and economic fundamentals. Denver boasts the nation's fastest-growing population of 25-to-34-year-olds, is the sixth



Simon's full-scale renovation of its Houston Galleria promises to bring several luxury brands and first-to-market retailers to Houston.

fastest-growing city overall, has a strong housing market and is America's third-most educated city. No wonder retail vacancy rates are down to approximately 6.5%.

Mirroring Atlanta's trends, retail concepts expanding most aggressively in Denver tend to be resistant to Internet sales: restaurant and grocery brands and sports/outdoor retailers. Similar to the national dynamic, many of Denver's traditional larger boxes are maintaining or contracting — frequently looking to downsize and experiment with smaller formats.

While grocery is flourishing, restaurants are unquestionably the most active component in Mile-High retail. Quick-serve and fast-casual continue to experience explosive growth, with concepts like Pizzeria Locale, Smashburger and Protein Bar thriving. Denver is also seeing a spike in chef-driven and independent restaurant concepts. Creative independents include Chef Troy Guard's TAG Restaurant Group, with six restaurants and ongoing expansion, and Richard Sandoval Restaurants, with eight Denver restaurants and counting.

Washington, D.C.

Nationally, retailers and restaurants are becoming more specialized, demographically targeted and connected to the communities they serve. We see those same trends in the Washington, D.C., market, where an emerging food culture is driving explosive restaurant growth. This culinary renaissance is fueled in part by prominent local, regional and national chefs opening new restaurant concepts, and by national names like Chipotle expanding

significantly in D.C. The international chain Nando's established its first North American presence in the market, and continues to expand regionally. MOM's Organic Market has 12 D.C. stores, with four more on the horizon. MOM's is already expanding into Philadelphia with two new locations, and plans more new stores in the near future.

The District's mass transit and connectivity have helped make it an increasingly popular destination for millennials. More than 30% of residents have a Master's degree or higher, and, with average household incomes approaching \$100,000, it's clear why Washington, D.C., is a top-performing location for brands like Starbucks and Chipotle.

D.C. also features some interesting fashion retailers, including successful men's concept Hugh & Crye. One store is open and a second is opening soon — part of a five-year plan to open new locations in five-10 major cities. In health and fitness, Zengo Cycle is one of several specialized fitness concepts (along with names like The Bar Method and CorePower Yoga) gaining traction in the market. Zengo currently has five stores, with plans for three to four more.

Houston

Houston is one of the few cities in the country with multiple significant mall expansions underway at the same time. A large renovation of The Galleria III mall and the ongoing development of the \$275 million, 650,000-sq.-ft. mixed-use River Oaks District promise to bring several luxury brands and first-to-market retailers to Houston.

Houston's grocery segment has seen two years of extraordinary activity. Several new high-end grocers, including Fresh Market, Trader Joe's and Sprouts, have opened multiple units. But in a mature, competitive market, results have been mixed. Established names like Whole Foods and H-E-B have been in the market for decades and have leveraged sophisticated and well-received Texas-themed marketing. Fresh Market has already closed one store, and Trader Joe's and Sprouts have put a halt on new Houston locations.

The plummeting price of oil has contributed to significant economic uncertainty in Houston. A growing downtown population proffered a massive boom in new office and multifamily, but that trend has reversed course in recent months — sparking speculation that the market may be overbuilt in those categories. If previously skyrocketing land valuations come back down in the wake of a potential office and multi-family slowdown, Houston might become more accessible to quality retail.

The big picture

While every market has its own retail character and commercial development trajectory, there are key national themes emerging. It's clear that restaurant growth, particularly fast-casual, is driving retail expansion in many markets. Explosive growth in gourmet and specialty grocery continues, but competition may create market-specific winners and losers. Experiential retail is also on the rise. From specialized high-end entertainment venues, to creative health and fitness concepts, creating an experience is critical — and something consumers are increasingly eager to pay for.

Finally, the growing influence of millennials is enormously important. An environmentally conscious generation that enjoys dining out and craves new experiences, millennials are brand aware, but not necessarily brand loyal, creating opportunities for expansion-minded retailers and retail concepts looking to make inroads with this influential group.

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