For Many of Today’s Retailers, Less is More
“Power center,” “department store” and “big box” can be seen as dirty words in some circles. That’s because, in some instances, these phrases are indeed attached to dirty words like “bankruptcy,” “consolidation” and the dreaded “closures.” Certainly, not every power center, department store or big box retailer in California is in trouble. But the numbers don’t lie.

U.S. shopping centers took back 102 million square feet in 2017, only to be outdone in 2018 when they received a record-breaking 155 million more square feet, according to CoStar. Recent retail closures include shopping center staples like Sears, JC Penney and Toys “R” Us; upscale chains like Lord & Taylor, Barneys New York and Henri Bendel; once-popular apparel companies like Forever 21, Charlotte Russe and Charming Charlie; and mall darlings like Gymboree, Payless ShoeSource and the Children’s Place.

“Department stores are definitely consolidating,” Budetti continues. “Many malls that have two Macy’s boxes are consolidating into one space with the vacated building repurposed as a multi-tenant building. We are also seeing tenants that are staying and reducing their square footage like CVS, which used to occupy 25,000 square feet to 30,000 square feet and is now downsizing its existing space to 14,000 square feet, freeing up a new 10,000-square-foot tenant space for lease.”

Retailers may be consolidating, but tenant rosters are expanding as landlords reconfigure their long-term plans, and spaces.

“The recapture of large space is occurring and it is being converted to smaller spaces,” says Sandy Sigal, president and CEO of Newmark Merrill in Woodland Hills. “We have taken back several Kmart’s and converted them for 5,000 to 20,000-square-foot tenants like Five Below, Ross, Marshall’s and TJ Maxx.”

**Big Names, Small Spaces**

These consolidations and reduced footprints demonstrate the ability of retailers to do more with less. It has also brought about a new sweet spot for leasing: 2,000 square feet or less. Ruben Perez, senior vice president of U.S. leasing for Unibail-Rodam-
co-Westfield (URW), thinks this smaller format can be mutually beneficial. It diversifies a shopping center’s offerings, while allowing a new concept to enter an area through a manageable amount of space.

“Spaces with smaller footprints are valuable for both developers and retailers as they provide an opportunity for businesses to have a presence in relevant locations within dense trade areas,” he explains. “This notion of localization must take into account today’s digitally savvy customer and omnichannel approach in order to succeed, stay relevant, and personalize merchandise and products to the needs and interests of local customers.”

Nordstrom, which closed three East Coast stores this past April, is capitalizing on this notion with its “Local” presence. The merchandise-free concept, which focuses on stylists who curate on iPads, alterations and e-commerce pick-ups and returns, opened its first store on Melrose Avenue in Los Angeles in October 2017. It now boasts three Los Angeles-area locations, including a 1,200-square-foot store in Brentwood that opened in September 2018.

Like Perez, Jamie Nordstrom, the company’s president of stores, believes the smaller neighborhood concept allows the retail giant to organically integrate into its communities.

“Los Angeles is one of our most highly engaged markets, with roughly 4 million active customers,” he explains. “Our customers have told us they want to shop where, how and when they choose. One of our goals with Nordstrom Local is to help provide them with a seamless and convenient experience, bringing services like in-store pick up of online orders, alterations, personal styling and more right to their neighborhood.”

Sephora has taken this strategy to heart as well, leaning on technology and omnichannel as the cosmetics company rolls out its 2,000-square-foot concept, Sephora Studio.

“In today’s retail environment where very little is constant and clients’ expectations are ever-evolving, one thing has remained true for Sephora: there is no better way to create meaningful connections with clients than through personalized experiences and a customized approach to beauty,” said Calvin McDonald, president and CEO of Sephora Americas, in a statement announcing the new concept. “The Studio merges the best of an inclusive neighborhood retail environment with best-in-class digital tools that enable our expert beauty advisors to customize recommendations on an individual basis.”

The sixth Sephora Studio opened in the Laurel Heights neighborhood of San Francisco this past June.
San Francisco this past June. The optimized store design features digital welcome and service menu screens for easy navigation and self-help, beauty advisors with mobilized devices, and order in store and same-day pickup options. The store’s “beauty studio” is condensed to include eight seats and four sinks where customers can receive skin consultations, 45-minute custom makeovers, or 15-minute mini facials and mini makeovers.

Another cosmetics company is taking this small-format idea to the extreme. The Detox Market had already established outposts on Montana Avenue in Santa Monica and Beverly Boulevard in West Hollywood before setting its sights on shopping centers. The green beauty maker took the big leap at Westfield Century City in Los Angeles, opening in a diminutive 300-square-foot space in July 2018.

These cozy quarters didn’t come without concessions. The other Detox Markets are about three times this size, so the company had to pare down its product selections from 150 brands to 53. Further, the Century City space can only hold one to three employees at a time, depending on the number of customers. The trade-off, however, is visibility in a high-profile shopping center. The Detox Market is situated near Bloomingdale’s, Saje Natural Wellness and Javier’s fine dining Mexican restaurant.

Perez believes the Detox Market’s success should prove that the old notions of leasing may be, well, old. Rather than fitting the tenant for the space, the new retail environment involves fitting the space for the tenant.

“Retailers and real estate operators should not place an emphasis on square footage allocation, but rather hone in on efficiency and a particular retailer’s footprint within the larger retail landscape,” he says. “Leasing does not have a one-size-fits-all approach. It’s about maximizing space for specific brands and identifying the right space that makes sense within the respective market.”
**CATEGORY LEADERS EMERGE**

Sephora Studio and the Detox Market make it clear cosmetics companies can get it done with less. Fortunately, this is just one of a handful of categories that are enthusiastic about these small spaces. Makeup’s counterparts, hair and facials, are proving to be additional tiny but fierce tenants.

“A really popular use of smaller space for beauty users is the blowout bar, which has been experiencing a surge in popularity,” says Marin Koper, an associate in Kennedy Wilson’s Beverly Hills office. “A related concept called Face Haus offers 20- to 60-minute facials and nothing else. Since its business only offers one service, it doesn’t need as much space as a full-service spa or salon.”

This premise has driven the expansion of blow-dry-only services, such as Drybar and Blo Blow Dry Bar. Irvine-based DryBar opened a 1,677-square-foot salon at the Ridge at Creekside in Roseville this July and another at One Paseo in the San Diego submarket of Carmel Valley this past March. The One Paseo location is situated near complementary retailer, Shop Good, a clean beauty and healthy living concept that only occupies 920 square feet.

Blo Blow Dry Bar is also on the move. The chain opened a 1,423-square-foot space in the Blue Oaks Town Center in Rocklin this past September, and another at Arcadia Gateway Center this past March.

“When deciding on the location, I wanted to make sure Blo Arcadia was in close proximity to not only residents, but also other businesses that Blo Arcadia could partner and collaborate with on future initiatives in our hometown,” says Helen Lin, owner and operator of the Arcadia franchise. Like Drybar and Blo Blow Dry Bar, Madison Reed, which focuses on hair color and touch-ups, prefers this smaller footprint, especially as the chain plots its future course. The San Francisco-based company has plans to open 600 new color bars by 2024, which includes both franchise and company-owned locations.

“We’ve found that 1,500 square feet gives us the room to create a very compelling space for our clients without being too large, which can create inefficiencies for our staff,” explains Ryan Lindgren, vice president of real estate and development at Madison Reed. “We like to be located where we can cross paths with our customers’ weekly and monthly needs. Lifestyle centers that offer a good mix of service, retail and food tend to be great opportunities for Madison Reed Color Bars. Women with gray hair typically color their roots every four to five weeks, so it’s important for us to be adjacent to their everyday activities.”

Boutique fitness has been another leader in the small-space race. Arguably one of the most popular of the Four Fs (fun, food, fitness and fashion), fitness concepts that hone in one activity or routine can be very effective in this size range.

“Condensed-format fitness is flourishing,” Koper says. “Instead of going to a big gym, people are now attracted to the boutique fitness model. StretchLab is a great example of this because it fills a specific health need that is complementary to a tenant mix with other fitness offerings.”

The one-on-one assisted stretching concept just signed its 250th franchise agreement this past October. It currently operates 79 studios nationwide, ranging from 1,000 square feet to 1,200 square feet. This includes studios in Mill Valley, Studio City, Venice, Newport Mesa, Laguna Niguel, Santa Monica, Beverly Hills, Tustin, Valencia and Solana Beach. An additional nine locations are opening soon in areas like Albany, Irvine, Granada Hills, Burlingame, Mission Viejo and Newport Beach, among others.

“In each new market where we open, we’re finding a built-in customer base already waiting for us,” says Lou DeFrancisco, president of StretchLab. “There are countless ways people are getting in their next greatest workout and pushing themselves to
the limit. We are successful in helping people recover and restore so they can keep up their fitness routines.”

Like beauty, hair and skincare, stretching studios provide a natural supplement to boutique workouts. This makes StretchLab an ideal neighbor for any number of workout programs. One company has made a big business out of this. Irvine-based Xponential Fitness has acquired a number of small-format fitness studios, including Club Pilates (prefers 1,500 to 2,000 square feet), CycleBar (1,800 to 2,200 square feet), Pure Barre (1,400 to 1,800 square feet), YogaSix (1,800 to 2,200 square feet) and even StretchLab.

Budetti notes that a smattering of small-format spaces like these fitness concepts not only diversify a center while providing a certain level of internet-resistance, but they also build a sense of community.

“We are definitely seeing a trend toward smaller spaces, some below 1,000 square feet, and I think we will start seeing a larger percentage of these smaller spaces at our local centers,” he says. “Malls are moving toward becoming community centers, providing myriad services in one location, including grocery, fitness, office, retail, restaurant, entertainment and multifamily housing.”

Lindsay Junk, president of YogaSix, says that’s exactly what her brand and other Xponential Fitness concepts are hoping to achieve as they ramp up their individual growth initiatives.

“Our leadership and individual studio owners have built a space and community where people can go and feel excited about their yoga practice,” she says. “The rapid growth of YogaSix is a true testament to the strong tribe we’ve established throughout the past nine months [when we launched our franchise program] and the incredible demand for a modern approach to yoga in the market.”

San Diego-based YogaSix has 35 studios open, with new locations coming soon to Campbell, San Francisco, Culver City, Mountain View and Ladera Ranch, among other locations.

The one-on-one assisted stretching concept StretchLab just signed its 250th franchise agreement this past October. It currently operates 79 studios nationwide, ranging from 1,000 square feet to 1,200 square feet. Pictured above is its studio in Venice.

MINDING THE SPACE

There are clearly many concepts out there that thrive in these small...
environments. As far as Mike Reilly, managing principal at SRS Signature Group in Santa Monica, is concerned, landlords can’t get enough of them.

“Landlords would love as many quality small shops as they can get,” he says. “It diversifies the tenant mix and intrigues the consumer, which, in turn, keeps them coming back to the center. Tighter, smaller shopping environments will continue to be curated and/or developed to meet consumer trends.”

Sigal definitely sees the benefits of these tenants, though he also sees the constraints.

“I think there has been a focus on smaller tenants for some time as the rents are higher but, the smaller you get, the more tenants exist in that category,” he notes. “In many cases, the issue isn’t the number of tenants, but rather the overlapping of uses. There is definitely a limit to what a shopping center can handle based on the area and demographics.”

Even when a shopping center can support additional tenants, such as fitness studios, there are other logistics to consider before a large box can be converted to a multi-tenant space, Koper points out.

“It really comes down to two things — zoning and parking,” she explains. “Big anchored centers with a lot of parking don’t have any issues breaking a big box space into five smaller spaces. However, the tenants that tend to thrive in these smaller spaces are fitness users. But here’s the catch: fitness uses usually have a higher parking requirement per local zoning. Many projects, like mixed-use projects, lack sufficient parking.”

Budetti further notes that divvying up these larger spaces for smaller uses isn’t always as easy as it seems.

“The biggest challenge with these smaller spaces is that building depths were designed for slightly larger spaces to maintain an optimal depth-to-storefront width ratio,” he says. “When you create new smaller spaces in these deeper buildings, the storefront width becomes too narrow for the tenants’ needs.”

Going forward, Budetti predicts some of this new multi-tenant space won’t be as deep as the normal industry standard depth. He also notes that the 1,500- to 2,000-square-foot size range doesn’t typically allow for stock rooms, which means retailers have to adopt a showroom approach, display all their stock on the sales floor or store the stock somewhere else inside the shopping center.

Brandon Wernli, director of production at KTGY’s Retail and Mixed-Use Studio, believes some of these configuration challenges can be mitigated through a forward-thinking design that accommodates future flexibility.

“When reconfiguring the space, we are designing in a way that allows for further division of the spaces in the future as needs change,” he says. “For example, if we are building a new 40-foot storefront from the division of an old big box space to accommodate today’s retailer, we are building it as two, 20-foot modules so it could easily be divided in half to accommodate two smaller tenants in the future. This is why it is helpful to keep the structure simple with no curves, bulkheads, etc., in consideration of future tenant needs.”

Wernli is likely onto something here. As with all things retail, flexibility remains paramount as ecommerce, technology and changing consumer habits will continue to dictate the ever-changing nature of this environment.

“The key for shopping owners is designing for the unknown future,” he continues. “Retail is evolving faster than the existing architecture, so designing maximum flexibility into current retail spaces is key. Today’s architecture needs to accommodate what the future of retail brings, tomorrow, five years from now and 10 years from now.”