

Sixtysomething

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The oldest Baby Boomers are turning 60 this year. But if you want to succeed in retail — and keep them coming to your properties — don't treat these folks like has-beens.

It has always paid to cater to this overwhelming demographic. Indeed, ever since they piled into the back of the Country Squire in their Daniel Boone hats for their first trip to the shopping center more than 50 years ago, the needs and whims of Baby Boomers have shaped the retail real estate business.

Now, the 78.2 million Americans born between 1946 and 1964 are entering a phase of life that retailers traditionally have not regarded as highly productive for them. Unlike younger consumers, they're not blowing their paychecks on the latest shoe craze or hitting the mall for back-to-school specials for their young kids.

But spend they do. While Boomers represent 26.3 percent of the country's total population, they control a disproportionate chunk of consumer spending. Boomers, on the whole, have \$2.1 trillion in annual buying power, according to MetLife Mature Market Institute. That's more than seven times Generation X and Generation Y combined. Generation X, born between 1965 and 1976, numbers just 41 million and commands annual buying power of \$125 billion, according to Yankelovich, Inc., a market research firm. Generation Y, or the Millennials, may rival the Boomers in size at 72.7 million, but its peak buying power is decades away, leaving that market with \$172 billion a year, according to Harris Interactive.

“Boomers outspend the other ages in every category,” notes Matt Thornhill, founder of the Boomer Project, a Richmond, Va. — based marketing research and consulting firm. A large portion of their disposable income goes toward apparel, health care and grocery purchases. According to the MetLife Mature Market Institute, Boomer households spend 13 percent more than the national household average on women's apparel and 11 percent more on men's.

The sheer weight of Boomers as consumers makes them the dominant demographic many retailers serve — by design or not. So what's the problem? Do developers and retailers need to go out of their way to serve a market that's already spending that much money?

The challenge comes in keeping these vitally important customers content as, yet again, they set consuming and lifestyle trends.

For years people talked about how things would change when Boomers started to retire. The time for planning is now over. Nearly 8,000 Boomers turn 60 every day and they are retiring in droves. With that come changes in where Boomers live and what they are looking for in their retail venues.

“Boomers have changed everything in our culture and it's likely that they will change what we think is old,” says Leon Nicholas, principal in the advisory services division of Global Insight, a market research company.

Yet few retailers or real estate companies seem to have figured out cogent strategies for how to address this market even as the demographic shifts are occurring.

No company is marketing an “adult shopping center” concept that parallels the “Active Adult” communities residential developer Del Webb is constructing throughout the Sun Belt. The company is working on a 7,200-unit Sun City Festival in Phoenix with Pulte Homes Inc. that won't be your stereotypical seniors' community. It will skew younger, with amenities like fitness centers and classes on subjects ranging from ceramics and computers to personal investing.

Where boomers congregate

Meanwhile, retail concepts that have tried to overtly court aging Boomers — like Gap Inc.'s Forth & Towne — have met with mixed success. The décor hits the mark, retail brokers say, but the fashions are not as exciting as they should be — a problem for many of Gap's chains lately. On the flip side, retailers you wouldn't pick as Boomer favorites — like Build-a-Bear Workshop — are a hit with Boomers who take their grandkids.

“This entire issue of how to serve the Baby Boomer population is a very, very challenging one,” says Douglas N. Casey, managing director with New York — based investment real estate firm Clarion Partners. “I think the retailers are struggling with it and no one has solved it yet.”

One lesson: Be subtle. Boomers are getting older and if you want to court them, you'd better go out of your way not to make them feel old. Don't go too far in creating a Boomer-centric environment either, Casey says.

A thing to look at in figuring out how to serve Boomers is to follow their migration patterns. Boomer retirees, unsurprisingly, are opting for warmer climates. Florida is the top destination with 139,372 Boomer residents moving there in 2003, the most recent year for which migration data are available, according to MapInfo. Next up: California with 100,081 new Boomers and Texas with 65,477.

The climate is only part of the equation. Most of the relocations are from the Northeast, where housing prices are the most expensive. Boomers moving South have been able to cash in on their homes and buy new ones for much cheaper in other markets. For example, the average price of a single-family home in Boston is \$1.28 million, while a similar property costs \$411,500 in Bakersfield, Calif., \$272,133 in Pensacola, Fla. and \$140,000 in Killeen, Texas, according to Coldwell Banker Real Estate Corp.

But many Boomers are also moving back to cities, helping spur a wave of mixed-use projects being built across the country.

“The suburb was a place to get away from the hustle and bustle of every day,” says Thom Blischok, president of retail and strategic consulting with Information Resources, Inc., a Chicago-based market research firm. “But now Boomers want to be where the lifeblood is. They want to be able to go to concerts, to ballparks, to restaurants.”

General Growth Properties, Inc., for example, is spending \$500 million to reposition its 1.2-million-square-foot Natick Mall in Natick, Mass. as a mixed-use property to woo Boomers.

“We are always looking at our clientele and trying to reflect its needs in our properties,” says Jim Grant, vice president of development with the company. “And Natick happens to be a place where that fits in with the Baby Boomer population perfectly.”

General Growth saw that demographics in the surrounding area were skewed toward the 50- and 60-year-olds, and wanted to redevelop the mall to reflect that, says Grant. To General Growth, that meant high-end retailers like Tiffany & Co. and Louis Vuitton and a mix of residential, hospitality and retail uses.

General Growth is adding 215 condo units, at least five high-end restaurants and a hotel to the property. So far, the company has received more than 300 applications for the condos, mostly from area Boomers looking to downsize out of single-family homes.

The company also brought in the first Nordstrom store and the second Neiman Marcus in the state of Massachusetts to Natick, in addition to a selection of upscale fashion apparel, jewelry and cosmetics stores.

“We have more luxury stores, fine dining and the grouping of the stores is more in tune with what older, more affluent people would be looking for,” says Grant. “I am in my late 50s and this is the kind of place I would want to live in. Something much more high-end and low maintenance.”

Most of the leases for the retail section of Natick will be finalized in the next 30 days and the residential condos are scheduled to open in late 2007 and early 2008. The hotel will be completed some time after that.

General Growth sees the Natick experiment as the model for its redevelopments during the next five to 10 years, Grant says, and is evaluating where it can add mixed-use components across its portfolio. “There are probably a dozen on the drawing board right now, including both existing properties and new developments,” he adds.

Shopping center designs will also change along these lines, offering higher-end finishes and easy-to-navigate and more vertical layouts. People living in mixed-use properties won't have to walk too far from their homes to the store or the movie theater, according to Doug McKean, partner with the New York — based Beyer Blinder Belle and the architect behind the redevelopment of the Natick Mall.

“The whole idea is built around making these places softer,” McKean says. “The redeveloped Natick Mall will be very sculptural, the Neiman Marcus store will resemble a Frank Gehry building.”

A less expensive way to lure in Boomers is a strategy developed by real estate broker and property manager Jones Lang LaSalle. At some malls, Jones Lang has begun clustering stores meant for specific demographics.

For Baby Boomers, Jones Lang is putting favored retailers closest to parking, based on the assumption that Boomers don't want to walk through 500,000 square feet of shop space just to reach their favorite stores.

“There are several developers out there who are taking weak sections of the mall or vacant department stores and are re-clustering their tenants,” says Greg Maloney, president and CEO of Jones Lang LaSalle Retail, which third-party manages more than 14 million square feet of retail space. “It's what consumers are asking us to do.”

At the Jones Lang — managed 1.1-million-square-foot Rosedale Center in Roseville, Minn., the lower level now contains Coldwater Creek, J.Jill, Talbot's and Banana Republic while the upper level houses retailers popular with Generation Y shoppers like American Eagle, Wet Seal, Express and Abercrombie & Fitch.

A former Mervyn's at the property was turned into a 183,831-square-foot lifestyle component, complete with an AMC theater, retailers like Ann Taylor Loft, Williams-Sonoma and Borders and curbside parking.

Jones Lang officials say the \$50 million addition targets both Generation X and Boomers who like to shop at Gen X stores.

The company has done the same thing at the 858,000-square-foot Village of Orange in Orange, Calif., the 731,000-square-foot Santa Rosa Mall in Fort Walton Beach, Fla. and the 938,000-square-foot Savannah Mall in Savannah, Ga. At the Savannah Mall, Jones Lang took a dark anchor and converted it to a 280,000-square-foot Bass Pro Shops Outdoor World, a popular Boomer haunt, according to Jones Lang research.

The mall's inline retail, on the other hand, features stores like Pac Sun and Abercrombie & Fitch, Generation Y favorites. Within a year of the change, retail sales at the property went up 17 percent.

Jones Lang plans to implement tenant reshufflings across a third of its managed portfolio at shopping centers in areas with large Boomer populations.

Lifestyle centers

The clearest manifestation of the move to sate Boomers' desires is the proliferation of lifestyle centers. Such properties serve as gathering places where shoppers can linger and meet friends.

They also offer the amenities that mesh well with Boomer preferences — sit-down restaurants, entertainment venues and specialty retailers that offer not just products, but also places to have an “experience.” Boomers love Barnes & Noble, where they can sit and browse, grab a cup of coffee and stay a while, according to research from Jones Lang.

Bass Pro Shops sells sports equipment, apparel and home products in one location and features interactive décor with indoor waterfalls, freshwater aquariums and video arcades. And like Sur la Table, Bass Pro Shops offers extracurricular activities to consumers with time on their hands — the retailer runs classes on archery, outdoor cooking and fly casting, among other subjects. The average time of customer visits to Bass Pro Shops is longer than two hours, according to Jones Lang.

Boomers are also behind the success of upscale coffeehouses like Starbucks, which sells the idea of a certain lifestyle, along with its frappuccinos and lattes. “Boomers, at this time of life, are less concerned about having more things and more concerned about experiences,” says Thornhill. “Starbucks, with its expanded line of products and music and relaxed atmosphere, provides an environment that’s all about experience.”

Lifestyle centers are also popular because of their physical layout. Instead of being stuck inside an artificially controlled environment, visitors can enjoy a walk in the open air as they do their shopping, combining business with pleasure.

“The fact that you can drive up and park your car is very appealing to Boomers and just the whole atmosphere is better for them,” says Stacey Leibowitz, vice president of consulting services with Robert K. Futterman and Associates, a New York — based leasing brokerage. “And because there is a big entertainment factor, it becomes an entertainment destination, of which shopping is one component. It becomes a hub for different activities.”

The format's success is obvious. The number of lifestyle centers has risen from a few dozen five years ago to more than 150 today, according to CoStar Realty Information, Inc. Moreover, about 65 percent of new retail developments are lifestyle centers, according to Morgan Stanley research.

“If I am building a format for tomorrow, it certainly won't be an 800,000-square-foot super center with bare walls and cement floors,” says Nicholas.

Struggling to meet the need

Some retail operators have launched new concepts aimed at the Boomer demographic, while others try to position their stores to appeal to that audience, all to mixed success so far, according to Blischok.

Among the Boomer-centric concepts is furniture seller Williams-Sonoma Home; fashion stores Chico's Soma; Gap Inc.'s Forth & Towne; former cataloguer Coldwater Creek and J.Jill, recently acquired by Talbots, Inc.

Soma, which Chico's brought on the scene in late 2004, averaged \$1.054 million in net sales in 2005 at its 36 stores, about \$460 per square foot. Chico's is ramping up expansion of the concept and will have 50 locations by the end of the year. Coldwater Creek's 198 retail locations brought in \$454.5 million in net sales in 2005, representing 60 percent of the company's total.

Forth & Towne, however, has met with mixed success. "I think it's very disappointing. It looks old and uninspired and could learn a few lessons from Chico's," says Candace Corlett, principal of New York-based marketing consulting firm WSL Strategic Retail.

In addition to featuring products that Boomers want — like apparel that looks fashionable, but still appropriate for a middle-aged woman — these retailers put a lot of emphasis on customer service, a very important feature for Boomers, according to Corlett, whose firm tracks the shopping habits of American adults in a series of reports called *How America Shops*.

Boomers also have strong preferences for the design of the stores where they shop, Blischok notes. Because they feel younger than they are and want to continue feeling that way, they will reject any environment that reminds them of their age. For retailers, that means making any kind of movement easier — shelves will have to be positioned so Boomers won't have to stretch or bend down too much; signage will have to take into account failing eyesights and product displays will have to make it easier for people to make a choice, Blischok says.

Retailers are trying different strategies to appease Boomers. Chico's, for example, has ditched conventional sizes at Soma and sells apparel ranging from 1 to 4, to boost the self-esteem of older women who might have to buy clothes sized 10 or 12 in a regular store. Chico's also hires Boomer-aged staffers so its target customers are dealing with people their own age.

Perhaps the most challenging assignment for retailers is making their stores comfortable for older people without making it obvious that they're compensating for Boomers getting older. "It's very important for the Boomers that Generation X and Generation Y perceive them as being like them," says Maloney.

Some companies seem to have already discovered the formula for success. Others, however, will have to find a way to turn themselves into "lifestyle merchants" before they are left behind.

The Next Great Market: Y Not?

While the Baby Boomer generation will continue to dominate the retail scene for another decade, the next great consumer market is continuing to mature: Generation Y. In sheer population size, Generation Y (those born between 1978 and 1994) is near in size to Baby Boomers with 72.7 million members, according to Jones Lang LaSalle.

But they still have a ways to go before they match Baby Boomer spending potential. The oldest members of Generation Y are 28 years old and still a decade or two away from their prime earning years. Research from Rochester, N.Y. — based firm Harris Interactive indicates they are already spending more than \$172 billion a year on consumer goods and services. By 2010, as more of them will enter the workforce, that figure will grow to \$600 billion. And on top of \$211

billion in their own collective annual income, the younger members of Generation Y have a lot of influence on how their parents — the Baby Boomers — shop.

But while some Generation Y preferences match those of the Boomers (they are willing to spend a lot of money on brand products and eat out an average of 24 times a month, according to Chicago-based market research firm Technomic) others show a cultural shift. For example, according to Forrester Research, 40 percent of Generation Y members it surveyed said that they research products online before purchasing them at a brick-and-mortar store, compared to 25 percent to 30 percent of Baby Boomers.

Generation Y is also big on upscale mass merchandisers like Target and specialty stores like Abercrombie & Fitch and American Eagle, says Candace Corlett, principal of New York-based marketing consulting firm WSL Strategic Retail. That differs from Baby Boomers, who still prefer department stores, both because it's a format familiar to them since childhood and because when it comes to apparel, the Boomers don't have as much choice as younger generations.

“We ask how America shops and every generation wants the same things — a good place to spend time browsing products, being able to accomplish a lot in one trip, attractive appearance and cleanliness and interesting new items on sale,” she says. “Where Baby Boomers are a little bit different is that they want to be treated with respect and they have higher expectations for a well-trained staff.”