NET LEASE VIEWPOINT

Where Are All The Retailers Going?
April 2015

In the six months since Stan Johnson Company released our last Tenant Expansion Report, we have seen most retailers announce their growth plans for 2015. Many retail sectors are reporting an increase in planned locations this year, while some retailers are scaling back or focusing on redesign rather than new store growth. Florida, California and the Midwest appear to be the strongest geographies for market expansion, with c-stores, discount retailers and grocery stores among others, all considering growth in these areas.

Many retail sectors are reporting an increase in planned locations this year, while some retailers are scaling back or focusing on redesign rather than new store growth.

- Lanie Rea, Director of Research

Also leading to new store growth is that some retailers are continuing to explore new formats or concepts, expanding their brands to target multiple consumer groups. Traditional retailers are pushing themselves further into the urban core with small format shops. Target, for example, with their Target Express concept, recently announced their first store in downtown Chicago and has several other sites in the pipeline. As these retailers move in, it creates new opportunities for developers, landlords and investors to adapt and reuse obsolete spaces, while also creating strong potential anchors for new infill retail and mixed-use development.

Change in U.S. Retail Sales

Source: Stan Johnson Company Research, U.S. Census Bureau
E-commerce remains a major consideration as retailers tap into the ever-growing online marketplace. As e-commerce continues to mature, the effect can be very different by retail sector and market size. Certain retailers like Amazon or grocery store chains can promote same-day delivery or online ordering for in-store pick up in a growing number of markets, while other retailers may have limitations. Retailers, developers and investors must fully understand these dynamics and adapt to the shifts.

**Automotive**

Of the 10 automotive retailers we follow, many have failed to publically announce their growth plans for the coming year. For the brands that have communicated their strategies, we are seeing flat growth, on par with openings in recent years. Advance Auto Parts, for example, is estimating they will open between 100 and 120 new stores in 2015, which is only a slight reduction from the 120 to 140 stores that were planned for last year. Discount Tire Company, a brand with a significantly smaller footprint, is planning just a handful of new stores, but has announced they will focus on expanding in the Heartland region of the U.S. Other household names like Pep Boys and O’Reilly Auto Parts are focused on building new distribution centers in strategic markets to serve their growing footprints, in addition to growing their retail presence in markets like Florida, California, Texas and the Midwest.
Convenience Stores

In the c-store sector, we continue to see strong growth from certain retailers. Sheetz, a brand with a small concentration of stores in Ohio, Pennsylvania and surrounding states, announced they will be testing a grocery/café concept in West Virginia this year, and will also focus on expanding their presence in North Carolina. WaWa, another regional retailer, has targeted Florida and the Mid-Atlantic markets for expansion this year, and hopes to open approximately 50 new stores. Global retailer 7-Eleven could see their North American footprint grow to as many as 30,000 locations in the coming years, while they continue to focus on international expansion.

Discount & Variety Stores

All eyes were on dollar stores last year as Dollar Tree announced they would acquire Family Dollar and the companies began planning strategic store closures. With the start of 2015 however, the joint company plans to continue their expansion across

---

**New Store Announcements: Change from 2014 to 2015**

![Diagram showing new store announcements change from 2014 to 2015](image)

*Source: Stan Johnson Company Research, various tenant websites and other publically available information; data is based on public information available in March 2015 and is subject to change*. 

---

Atlanta  Chicago  Houston  Los Angeles  New York  Phoenix  San Francisco  Tulsa
the U.S. and Canada, although no official new store count has been released. Dollar General, in response to the merger between its competitors, has accelerated its expansion plan and will be focused on Maine, Oregon and Rhode Island as states of growth. Other discount retailers, like Costco, BJ’s Wholesale Club and Sam’s Club have announced new planned stores from three up to 50 locations, with e-commerce solutions a strong focus for Sam’s Club. Retailers including Target and Wal-Mart continue to focus on their small-format stores, and many areas especially in the urban core could see a new Wal-Mart Neighborhood Market or Target Express open this year.

**Drug Stores**

After closing a number of under-performing locations in 2013, Rite Aid is back in growth-mode, focusing on the Midwest for targeted expansion. They are also concentrating on remodeling existing stores, and could refresh up to 450 locations this year. CVS is also focused on expansion in 2015, and plans to add 100 Minute Clinic concepts to existing stores this year. Walgreens recently announced plans to close 200 locations this year across the U.S. in a strategic decision to identify cost savings opportunities. They did note these closures would not affect planned openings in other U.S. markets, although that number has not been communicated. Of the big three drug stores though, Walgreens continues to lead the pack in number of locations, topping the list at more than 8,200 stores.

**Restaurants**

Many retailers in the casual dining world, including Applebee’s, Buffalo Wild Wings, Chuck E. Cheese, Steak ‘N Shake and Denny’s, have all announced significant international expansion plans this year. In the U.S. though, one of the fastest growing brands is Panera Bread, which has announced up to 115 new franchised locations before 2020. IHOP, along with its international expansion plan, has committed to 45 new locations annually over the next three years, and we may even see a new concept from IHOP this year in select markets. Among quick-serve restaurants, international growth seems to be a trend as well. Subway, Tim Hortons/Burger King, Baskin Robbins and Carl’s Jr. are all focused on growing their footprints in markets like Japan and the Middle East, among others. In the U.S., brands including Checkers/Rally’s and Sonic Drive-In have planned approximately 25 new locations each this year. Stronger growth is anticipated from retailers like Starbucks, which could open up to 8,000 new stores globally in the next five years, and Popeye’s, which has targeted Hawaii as a growth market in light of KFC decreasing their market share there. Chick-fil-a has also announced a robust growth

E-commerce remains a major consideration as retailers tap into the ever-growing online marketplace. As e-commerce continues to mature, the effect can be very different by retail sector and market size...retailers, developers and investors must fully understand these dynamics and adapt to the shifts.

- John Rotunno, Associate Director

E-commerce remains a major consideration as retailers tap into the ever-growing online marketplace. As e-commerce continues to mature, the effect can be very different by retail sector and market size...retailers, developers and investors must fully understand these dynamics and adapt to the shifts.

- John Rotunno, Associate Director
plan for 2015, as they estimate more than 100 new stores could open this year, primarily in urban markets including New York City. According to the National Restaurant Association, restaurant sales are expected to hit a record high in 2015, projected at $709 billion in industry-wide sales. If predictions hold true, we would see a nearly four percent increase in sales over last year, helping to fuel the already strong growth of new store openings we are seeing across the sector.

Restaurant sales are expected to hit a record high in 2015, projected at $709 billion in industry-wide sales... helping to fuel the already strong growth of new store openings we are seeing across the sector.

- Daniel Herrold, Senior Director

While this is just a snapshot of growth plans from a handful of retailers, it is clear that consumer demand for a variety of retail concepts is strengthening. However, latest reports indicate that overall retail sales have declined for the third straight month through the end of February. Despite the strengthening economy and the consumer’s desire for new, convenient store concepts, many retailers are approaching their expansion plans with caution. They are being more selective in their site selection to ensure new openings are successful and that they are able to reach their desired consumer groups effectively. If 2015 continues the trajectory that we have seen over the last few years, the retail industry should expect to see smaller-store-concept growth in urban markets, talk of additional mergers or acquisitions, expanding single-tenant retail presence in rural or untapped areas, and the disappearance of outdated brands or struggling store concepts.