The shopping habits of the American consumer have shifted dramatically since the advent of e-commerce, thereby impacting how individuals interact with brick-and-mortar retail stores. Consumer expectations have changed, so that shoppers now hope that a trip to the store will satisfy not only the desire to acquire physical goods, but also the wish for human connection. Thus, consumers expect retail centers to provide relevant goods and services to the community while also fostering positive social interaction.

For their part, investors may wonder whether retail real estate has lost its shine, given the struggles of big box retailers such as Borders, Macy’s, and Sears, as well as specialty retailers such as The Limited, Radio Shack, and The Gap. While retail assets have traditionally been a staple of real estate portfolios, should investors question their presence in today’s asset mix? At Longpoint Realty Partners, we believe the disruption in the retail sector provides attractive opportunities to physically reposition and redefine an asset’s value proposition to the surrounding community. Investors have the opportunity to revamp aging assets so that they appeal to community residents both emotionally and economically, transforming them from large, impersonal spaces into more intimate and customized venues.

In his seminal book, The Great Good Place (1999), urban sociologist Ray Oldenburg demonstrates how and why public gathering places such as coffee shops and general stores are vital to local democracy and community. He defines the “third place” as constituting informal public gathering places. The phrase “the third place” derives from the conception of the home as the first place in our lives and the workplace as the second. He states that “a ‘third place’ is a place on the corner, [offering] real life alternatives to television, and easy escapes from the cabin fever of marriage and family life...Though a radically different kind of setting for a home, the ‘third place’ is remarkably similar to a
According to Rafaelli, independent bookstores have been facing a variety of competitive threats for the past 30 years, battling to maintain their customer base. Oldenburg goes on to explain that the third place allows the community to congregate, exchange practical goods and services, and confer deeper social identity and belonging.¹

In looking at today’s retail environment, the rise of e-commerce and declining revenues in malls and department stores might seem to suggest that the need for a physical third place is diminishing. While an online ecosystem of individuals with shared interests and values might now be considered a third place, it is our belief that a traditional physical third place as defined by Oldenburg is as vital to today’s communities as ever. We believe that successful brick-and-mortar retail in modern society satisfies a fundamental human need for collective gathering and communal exchange, offering a specific value proposition to the participants.

The viability of today’s third place is well-illustrated by the recent resurgence of independent bookstores, a phenomenon extensively researched by Ryan Raffaelli, a professor at Harvard Business School.² Raffaelli studies how innovations transform mature industries and business models. His research introduces the concept of “technology reemergence,” a process whereby organizations and industries faced with technological change reinvent themselves. Most recently, Raffaelli has focused his research on the resurgence of independent booksellers in the United States.³

In this paper, we will provide an overview of Raffaelli’s research, define the function of a third place in today’s supercharged cyber society, and identify key findings relevant to owners of community shopping centers.

THE FALL AND RESURGENCE OF INDEPENDENT BOOKSTORES

According to Rafaelli, independent bookstores have been facing a variety of competitive threats for the past 30 years, battling to maintain their customer base. See Figure 1. The decline began with the emergence of mall chains such as B. Dalton and Waldenbooks in the 1980’s, and continued with the rise of the specialty chains Borders and Barnes & Noble, which eventually bankrupted thousands of independent businesses. These changes and the resulting impact on the bookselling business were so

FIGURE 1: Competitive Threats

<table>
<thead>
<tr>
<th>MALL CHAINS</th>
<th>BIG BOXES</th>
<th>E-COMMERCE &amp; E-READERS</th>
<th>INDIE BOOKSTORE RESURGENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waldenbooks</td>
<td>B. Dalton</td>
<td>Borders.</td>
<td>ABA</td>
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</tbody>
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Source: Raffaelli, Ryan. “Surviving Technological Change.”
dramatic that Hollywood immortalized them in the 1998 romantic comedy film, “You’ve got mail”. The mall chains and specialty bookstores were in turn destroyed by a handful of giant mass merchandisers—namely Walmart, Target, and Costco. After several decades of price wars and competition from large retailers, the pain was compounded by the advent of e-commerce (and Amazon.com in particular), as well as new low-priced technology such as e-books and the Kindle eReader, which were introduced by Amazon in 2007. Faced with disruption and destruction, it was no surprise that the number of “indie” bookstores belonging to the American Booksellers Association (ABA) declined dramatically. Five years after the arrival of Amazon.com, the number of independent bookstores had dropped from approximately 7,000 to 4,000 (43 percent).4

However, to the surprise of most industry analysts who had predicted the collapse of the independent bookstore sector, the independent booksellers are currently experiencing a renaissance. From 2009 to 2015, the number of ABA member booksellers increased from 1,651 to 2,227 (35 percent), and the reported average revenue of small stores has grown 13 percent since 2010. See Figure 2. Raffaelli reported that at the ABA’s annual conference, its CEO opened his address by stating: “It is a great time for indie bookstores. Bigger is not always better. We’ve shown it’s possible to change and adapt. We’ve redefined who we are.”5

What led to the unexpected renaissance of the independent bookstore sector? Raffaelli’s research suggests that successful local retailers focus on three processes that amplify their core product offerings and generate strong demand, and, most importantly, connect with their communities and consumers on a personal level. According to Raffaelli, “combined, these aspects of community, curation, and convening (the “3Cs”) served as important bottom-up processes that reframed the mature independent bookselling industry as a legitimate and distinct form of brick-and-mortar bookselling.”6 See Figure 3.

After over two decades of intense competition, independent bookstores recovered by redefining the fundamental value proposition for customers. Instead of selling a commodity to a customer, independent bookstores began to focus on connecting with the community, curating product offerings to suit unique cultural needs, and serving as convening spaces for neighborhoods and interest groups.
Unlike the independent bookstores that have always been rooted in communities, Amazon started by selling books to an online community. Amazon has since grown to be the largest e-commerce retailer in the world, and after two decades of battering the retail bookselling business, has also opened brick-and-mortar bookstores (“Amazon Books”) close to dense populations in the immediate suburbs of several major U.S. cities. These developments, along with other initiatives taken by Amazon to extend its brick-and-mortar footprint into other product lines, demonstrate the importance that Amazon has placed on brick-and-mortar retail strategies.

Amazon Books curates its selection of products and services through a focused product mix and intelligent store layout. These retail locations are smaller in terms of square footage and number of titles than chain bookstores, and also include a number of other Amazon high-margin product offerings such as the Kindle, Fire, and Echo. The book selections are arranged with the covers facing out, as opposed to the conventional method of stocking books spine-out. This aesthetic facilitates an appealing in-store shopping experience by eliminating a cluttered appearance and allowing the consumer to more easily browse the book selection. Further, book selections for each location are made based on data insights from Amazon’s online platform, and include bestsellers chosen by category, special sections such as “Most-Wished-For Books on Amazon.com,” and CEO Jeffrey Bezos’ personal recommendations. Overall, Amazon Books has attempted to capture the curated look and feel of independent bookstores to a much greater degree than have larger retailers such as Barnes & Noble.

Amazon’s entrance into brick-and-mortar retail reflects a growing sentiment among shoppers that the online shopping experience is not enough, and that a physical third place to convene is a desirable and necessary part of the buying process. A.T. Kearney, a global management consulting firm, notes that two-thirds of consumers who purchase products online first engage with the products in a physical store location, demonstrating that a brick-and-mortar store experience plays an important role in generating product awareness and corresponding sales. After purchase, many customers show a preference for physical in-store pickup and an in-person return option that eliminates the hassle of arranging shipping. Amazon’s physical retail spaces allow customers to explore product offerings alongside fellow shoppers in a way that encourages purchases both in-store and online.

First, independent bookstores are grounded in the community, and often tout the benefits of shopping locally on their receipts and in promotional materials. As stated by one bookshop owner, “...all these indie bookstores are very much a part of the fabric of their surroundings and their neighborhoods.” Second, independent bookstores curate inventories that are tailored to the specific interests of the relevant communities, with personalized book selections and handwritten reviews displayed on the shelves. Third, independent bookstores play a convening role in the local community, with some booksellers hosting over 500 events per year, such as musical performances, readings by visiting authors, and foreign language events.

ONE NIGHT I WAS STANDING OUTSIDE WATCHING. WE HAD A SPANISH LANGUAGE EVENT WITH ABOUT 40 PEOPLE. WE HAD AN ENGLISH SPEAKING AUTHOR EVENT IN ANOTHER PART OF THE STORE. WE HAD MUSIC IN OUR COURTYARD. OUR CAFÉ WAS FILLED IN THE BACK … AND I’M THINKING, ‘THIS IS HEAVEN.’

- Interview with an independent bookseller
Like independent booksellers, every retailer in America, from fitness companies to grocery stores, must create a fully developed brick-and-mortar retail strategy that connects with the customer on a personal level. In GQ’s April issue, the editors list their picks for the best new stores in the US of 2017. All of these stores opened in the last five years in major US cities with dense populations and incorporated the 3Cs. Each pays attention to how the store fits into its local and online communities, and to the nature of the personal connection that exists between the customer and the store. As the editors note, “In an age when you can buy anything and everything online, a great store has to be more than a place to spend money, it’s gotta be a place to spend time.”

As the namesake suggests, community shopping centers are rooted in their local communities, and, we believe, are ideally positioned to serve as today’s main third place. Like independent bookstores, successful community shopping centers provide demographically relevant goods and services in addition to expanded public gathering spaces that reflect the authenticity and character of the local community.

However, despite their excellent potential to serve as community hubs, there are many community shopping centers that have failed to keep up with rapidly changing consumer preferences and evolving demographic compositions. These neighborhood centers often do not provide demographically relevant goods and services to the local community. Further contributing to the fading relevance of many existing retail centers is the age of the product; as of 2014, the median age of community shopping centers was 27 years. The lack of attention afforded to both community preferences and the modern aesthetics and functionality of physical assets has opened up a major opportunity for investors to reposition these centers. Unlocking the potential of these properties is the key to Longpoint’s retail strategy.

In contrast to other retail concepts such as malls and department stores, which shed 89,000 retail jobs in 2016, and which currently do not provide consumers with an acceptable value proposition, well-located neighborhood shopping centers provide attractive re-development opportunities. As a whole, the brick-and-mortar retail sector is experiencing significant headwinds driven by changing consumer preferences and the rise of e-commerce. But as the independent
bookstore resurgence proves and as the case of Amazon supports, the concept of preserving and growing a brick-and-mortar retail strategy must be based on community, convening, and curation.

We believe that for brick-and-mortar retail centers to succeed, it is imperative to create an attractive modern-day third place that incorporates the 3Cs. The centers must be conveniently located and must provide an experience that cannot be replicated through the click of a mouse. Longpoint’s strategy for achieving this effect is a two-step process: identification and creation. We initially identify properties that exist in proven locations, but which have failed to remain relevant to the community in terms of tenant mix and/or physical condition. We then create relevancy—that contemporary third place—through our comprehensive proprietary rebranding program called VISTA (“Visibility, Image, Safety, Tenancy, and Access”). With VISTA, we first identify physical infrastructure and sustainable improvements for enhanced building designs including landscaping, lighting, and signage that can unlock the full potential of a proven location. Redevelopment may be necessary, and may take the form of adding an anchor tenant, changing the physical layout of the site to increase visibility and traffic flow, creating new open spaces, and/or implementing environmentally friendly and sustainable operations. Second, we work with our network leasing and management teams to develop leasing strategies targeting the right balance of uses such as grocers, national and local restaurants and coffee shops, fitness centers, and specialty beauty and apparel retailers. We strive to maximize tenant synergies and benefits while presenting a renewed value proposition to the local community. Third, we promote local events and interactions by creating a safe, open, and enjoyable environment that invites individuals to spend time together and build a community at the center. Fourth, we incorporate the physical benefits described above with the asset’s online marketing strategies. By placing the 3Cs at the heart of our repositioning strategy and employing knowledge brought from years of successful development and redevelopment, Longpoint is optimally positioned to execute on investment opportunities in the retail landscape. We transform bland, overlooked centers into vital community hubs that offer consumers both a central place to interact and a desirable, personalized shopping experience.

Thank you for reading our inaugural Longpoint Review White Paper and we look forward to our next edition, which will provide an overview of the changing grocery industry.

2 Professor Raffaelli serves as an unpaid Advisory Board member at Longpoint Realty Partners. He holds no financial interest in Longpoint Realty Partners or any of its holdings.
5 Ibid. Page 5