

The Rise Of The ‘Grocerant’

Changing shopper demographics, urban dwellers drive demand for prepared foods across the Midwest.

Kristin Hiller



Mariano's, now owned by Kroger, has dominated grocery development in Chicago and the suburbs. This location sits at 40 S. Halsted St.

Today's grocers are catering to the urban shopper and enhancing customer experience to stay competitive in the marketplace. Enter the “grocerant,” a hybrid of the grocery store and restaurant, where customers can pick up their groceries and stay for dinner too. Across the Midwest, the likes of Mariano's and Whole Foods Market have begun to anchor mixed-use developments.

Whole Foods Market has become known for its salad bar and prepared foods at traditional locations. Shoppers can use iPads to order sandwiches, pizza and rice bowls to go, according to JLL's 2017 Grocer Tracker retail research report, which emphasizes that convenience is leading grocery trends.

Mayfair Collection, a shopping center

developed by HSA Commercial in Wauwatosa, Wisconsin, is now home to a Whole Foods that opened last year. The 47,563-square-foot store was the second location for the Austin, Texas-based company in the Milwaukee area.

Geared toward the local customer, the Wauwatosa location features The Tosa Tavern, which offers local beers on tap with a beer growler refill station. Other specialty departments include a cheese shop, butcher shop, juice bar and seafood market.

Whole Foods locations nationwide offer a variety of prepared foods including delis, pizza ovens, BBQ stations, sushi bars and wine bars. In-store seating areas encourage customers to shop and dine in one.

Mariano's maintains its own specialty brands within stores, such as Oki Sushi, Todd's BBQ and Squeez'd juices.

Mariano's opened a store at 3030 N. Broadway in Chicago last year to anchor a 137,618-square-foot shopping center. This year, the Wisconsin-based brand will open locations in Des Plaines and Lombard, Illinois.

In-store dining and takeout of prepared foods from grocers has increased nearly 30 percent since 2008, according to The NPD Group, a consumer and retail data company. Last year, the market for grocery prepared foods was estimated at \$29 billion.

Changing shopper demographics have led to the heavy focus on prepared foods and in-store dining occurrence.

GROCERY TRENDS



Last year, Target opened a 20,000-square-foot store in Chicago's Hyde Park, the company's fifth flexible format store in Chicago.

"Experience and convenience really accommodate the modern family where many households have two working members. They need that ease and quality," says Sean Sharko, a first vice president with Marcus & Millichap in Chicago.

Mariano's and Whole Foods are the

has dominated the grocery development in Chicago and the suburbs, according to Austin Weisenbeck, also a first vice president with Marcus & Millichap. This domination stems from its willingness to pay the higher rents associated with construction and land costs for prime locations.

two chains that do prepared foods best, according to Sharko. Mariano's purchase by Kroger was big news in the Midwest because it enhanced the credit behind the operator.

For the most part, Mariano's

Jewel-Osco stores, for example, operate with significantly lower rents and older buildings.

"The days of someone building a free-standing grocery store out in the middle of a cornfield are finished. What I do think you'll see is the repositioning of stores," says Michael Havdala, senior vice president with HSA Commercial.

MIXED-USE, SMALL-SCALE

Also impacting the grocery market is the migration to downtown office locations by companies, as more and more employees are opting to live downtown as well. These urban core residents influence the grocery items in demand by looking for quick and convenient options.

"We're seeing more of the urban consumer who is apt to visit the grocery store two or three times a week and fill up a basket rather than shop for weeks at a time," says Eric Sheaffer, an associate with CBRE in Minneapolis. "If you can walk to the grocery store, there's no need to stock up and worry about spoilage."

Grocers have to adapt to current shop-

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per trends to stay on top of the market. For most, this means scaling down square footage size and zeroing in on the customer's needs in a specific location. If shoppers are not purchasing many items per visit, grocers don't need to consistently shelve as large a product offering.

"It doesn't make sense to have a big superstore in an urban environment. The leasing and construction costs are exorbitantly high," says Michele Krause, an attorney who specializes in retail and of-

fice leasing with Chicago-based Ginsberg Jacobs. "Instead, stores need to have a smaller, more comprehensive selection of what urban consumers want."

Krause calls it the "urban renewal" of the Midwest, citing not just Chicago but Detroit, Cleveland and Columbus as markets experiencing the growth of the urban core coinciding with smaller grocery concepts.

Sheaffer agrees and emphasizes the adaptability now required of grocers in

terms of development.

"Not only do most retailers want to get into smaller footprints, but urban settings often require them to do so. Retailers that want to be in an urban area are going to have to locate in a mixed-use space more often than not," he says.

Kroger recently unveiled plans for a 35 percent reduction in new-store development, store expansions and relocations in 2017. The Cincinnati-based company's latest 10-K report filed with the Securities and Exchange Commission lists just 55 new projects planned for the year, in comparison to the 100 listed in last year's report. Kroger, along with other companies, plans to focus spending more so on remodels and digital initiatives.

Target "flexible format" stores have made a splash across the Midwest, popping up in mixed-use developments. These stores are specially designed for densely populated areas. Last year, Target opened a 20,000-square-foot store in Chicago's Hyde Park, the company's fifth flexible format store in Chicago. The small-scale store occupies the first floor of Vue53 Apartments and offers products catered toward University of Chicago students.

The Minneapolis-based retailer has plans for billions of dollars to be invested in repositioning and reimagining Target stores over the next three years. Target will invest heavily in digital efforts and enhancing pick up for online orders. The retailer expects to completely remodel 110 stores across the country and open 30 new small-format stores in urban neighborhoods or college campuses this year. By 2019, Target plans to fully renovate 500 more stores nationwide.



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CLICK AND COLLECT

Spending capital on remodeling existing stores is a trend longtime grocery veteran Joe McKeska of Oak Brook, Illinois-based Elkhorn Real Estate Partners sees taking precedence over allocating funds for new development. The growth of online shopping is certainly one of the reasons grocers have to rethink and invest in their store formats.

"There is now considerable fragmentation in terms of the number of different channels and different retailers that people shop at on a weekly basis," says

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McKeska. “Some of that is due to behavioral change, some is driven by new formats and concepts, and some is driven by the growth of online retailing.”

According to the Digitally Engaged Food Shopper Study compiled by the Food Marketing Institute (FMI) and Nielsen, online grocery shopping could reach 20 percent of the food-at-home market by 2025, encompassing \$100 billion in annual consumer sales. The growth is projected to be rapid, as the online sector represents just 2 percent of grocery retail currently. FMI advocates on behalf of the food retail industry while Nielsen studies consumer habits.

According to McKeska, this future 20 percent doesn't necessarily encompass just online retailers. He suspects that a majority of these sales will come from traditional grocers expanding their e-commerce capabilities. For example, Kroger and Walmart are currently the biggest and fastest growing players in “click and collect,” where shoppers can order groceries online and pick up at the store.

Walmart is the most advanced in the



The success of prepared foods sales at Whole Foods has enabled the retailer, in part, to launch another chain of stores, called 365 by Whole Foods Market.

omnichannel space, according to McKeska. The retailer also owns the majority of its store locations, meaning they can readily add online shopping supplements such as drive-up kiosks without having to get approvals from landlords or other

shopping center tenants.

Walmart is currently testing a mobile app that allows shoppers to bypass the checkout line by scanning items as they shop. Assuming its success, the app will likely become a standard feature in its stores nationwide, according to JLL.

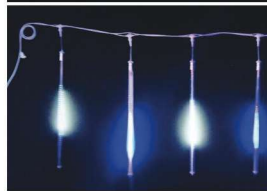
“The grocers that invest in digital and e-commerce technologies are much more likely to be successful as the percentage of online grocery sales grows. If you're investing now to get ahead of the game, then you're more likely to survive long term,” says McKeska.

For the most part, sources remain optimistic for the future of the grocery sector in general.

“Grocery is still one of the darling investments for the institutions and even private capital,” says Sharko of Marcus & Millichap. “Necessity-based tenants who appear to be doing very healthy in the marketplace – that's where investors want to put their dollars.” **SCB**

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