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Retail

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KEYNOTE INTERVIEW

Open-air retail gains momentum



*Specialty open-air retail centers are providing a notable investment opportunity in the current retail landscape, say Northwood's **Ward Kampf** and **Sam Payette***

Retail is having a moment, and specialty and lifestyle open-air centers serving key demographics are gaining traction as a high-value product type within the retail real estate industry. Investors are deploying capital into open-air retail with significant formation around the sector, but capable operators remain scarce, according to Sam Payette, managing director of investments for Northwood Investors, and Ward Kampf, president of Northwood Retail.

With limited new supply since the global financial crisis, elevated occupancy, and sales growth continuing to outpace rent growth, the sector is supported by strong property performance and embedded mark-to-market upside, creating attractive conditions.

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Q Where do you see the greatest opportunities in open-air retail as investor appetite continues to strengthen?

Ward Kampf: We see significant opportunity to take well-located and physically relevant assets and make them great through a tailored merchant approach and hands-on operations. We think the biggest opportunity in this cycle will come through operational expertise.

Given that consumers increasingly prioritize convenience while seeking

connection and in-person experiences, assets with the potential to be transformed through placemaking, curated merchandising and experiential programming can deliver compelling returns.

Retail supply growth has trailed US population growth every year since 2020, a trend expected to continue through the decade. Well-positioned open-air assets are benefiting from increasing demand against a backdrop of limited new competition.

We have been setting our sights on acquiring and repositioning select open-air assets that align with a clear retail thesis. Projects with the potential to evolve through enhancements, located in affluent infill neighborhoods

with favorable demographics, strong daytime drivers and a balanced mix of local and national retailers are particularly appealing.

Identifying the right assets and curating a high-performing retail environment requires frontline leadership, strong tenant relationships and an experienced operating platform capable of executing at the property level.

Part of that shift is being driven by retail's uniquely constrained supply profile. New supply has averaged roughly 50 basis points annually since 2010 and is expected to slow further through 2030, creating an increasingly favorable backdrop for high-quality open-air assets.

Today, you are starting to see people move to this open-air retail center class, and large amounts of capital are getting behind it.

Q What key attributes should investors and managers prioritize when evaluating assets?

WK: The key attributes are demographics and merchandising. We work

with many dynamic tenants, from legacy to luxury to direct-to-consumer, and demand for these types of open-air assets from retailers is growing exponentially.

Part of that demand stems from a market where retail sales growth has outpaced rent growth by roughly two-to-one since 2010, creating meaningful mark-to-market opportunity. We like to own and operate assets in neighborhoods with strong daytime populations, spending power and unmet demand. Then, we focus on merchandising and activating these centers to cater to the local consumer.

We pursue a mix of first-to-market national tenants, fresh direct-to-consumer concepts and local operators. We say that 80 percent of a project's soul or personality comes from the unique local tenants, and we look to locals to fill 10-15 percent of GLA.

We understand these open-air assets and, prior to acquisition, create highly focused, property-specific business plans. This is our lane. Each asset is unique and requires operational expertise to maximize its real estate value.

We always start by getting the food right – whether that is a grocer or what we call 'authoritative food,' a cluster of compelling food-and-beverage offerings that drives traffic and lifts the broader tenancy. The compilation can include quick-service restaurants, celebrated chef-driven concepts, coffee, juice bars, specialty bakery and grocers; it is customized from market to market. You want those special local tenants, such as a jeweler, restaurant or salon who give the center character, and then mix in national tenants around them.

It is a bit of art and science. When tenants thrive, centers perform and capital markets follow. There is a cause and effect.

In addition to merchandising, green space, events and niche brand activations are vital. We want to draw in the neighborhood and keep locals on site, and we are focused on curating the right balance of necessity and discretionary users, building loyalty and repeat patronage and increasing dwell time. We also look for nearby hotels to drive waves of new visitors every three to five days.

We concentrate on centers that fit

Q Beyond demographics, what factors into whether a retail center can sustain long-term relevance and outperform its market?

SP: It is all about picking the right real estate. We focus on identifying market-dominant assets that we believe will always have pricing power and tenant demand.

However, truly outperforming the markets comes down to operations. It is about marrying the quality of the real estate with operational excellence. That means having the right tenant mix and marketing strategy in place, while also being a good steward of capital and investing thoughtfully throughout an asset's lifecycle to maximize returns on capital expenditures.

Across the retail landscape, we see a meaningful opportunity in assets that have been under-leased and under-managed. By acquiring and strategically repositioning these properties, we believe significant value can be unlocked.

However, success in this sector requires far more than capital. It calls for a clear retail thesis, deep tenant relationships, local market knowledge and a vertically



The Forum Carlsbad is a 265,000-square-foot, open-air outdoor lifestyle center in affluent North County, California

integrated operating platform capable of executing at the asset level. We believe the number of operators who possess this combination of capabilities is relatively small, creating a compelling opportunity for firms with the expertise and infrastructure to consistently transform good assets into great ones and produce outsized returns in the long run.

“Many smaller and mid-sized markets contain pockets of significant spending power”

SAM PAYETTE

naturally into the consumer's daily path. Can she get a cup of coffee or grab a bite or a gift after she goes to the gym or drops her kids off at school? In larger cities or more dynamic markets, we look for concentric circles with 15-20-minute drive times. Convenience is critical – accessibility, functionality, ample parking and a clean, safe environment.

Q Are investors still focused on population growth, or are they placing more emphasis on other demographic information?

Sam Payette: At Northwood, we have always been very focused on population growth; it is what has led us to invest heavily in US Sun Belt markets since the firm's inception. While we continue to factor in population growth, on the retail front, we have been sharpening our focus on consumption patterns.

Many smaller and mid-sized markets contain pockets of wealth and significant spending power. What is changing is that retailers have access to advanced customer data through online channels, so they recognize the importance of these markets in their overall real estate strategy. They know exactly where they want to be and their

desired co-tenants. It is through our synergistic tenant relationships that we can gather intel ahead of an acquisition to understand a project's leasing appeal.

What it comes down to is identifying the market-taking asset in a specific MSA and then executing the right business plan with active operational control. With a vertically integrated platform and a portfolio spanning the country, we have a coast-to-coast lens that allows us to home in on underserved, affluent markets on the radar of these high-performing tenants.

Q How is the widening gap between higher-income and lower-income consumers influencing retail performance and tenant demand?

SP: The K-shaped economy is becoming a clear trend and certainly impacting the broader retail environment. Data shows that the top 10 percent of earners now account for roughly 50 percent of total retail spending, and that share has continued to rise.

However, that does not necessarily mean we are pursuing and purchasing shopping centers that are strictly oriented toward luxury goods. Instead, our thesis focuses on identifying environments anchored in strong demographic pockets, where that subset of the population spends money on a day-to-day basis. We own and operate at the intersection of necessity spending and discretionary spending, where luxury meets convenience.

We want to create environments with a sense of place, where shoppers can make a larger, more purposeful purchase at the same center where they are exercising, having their hair styled, grabbing coffee or attending an event or concert.

By integrating convenience, proximity, experiential retail and daily-use services, the center becomes more relevant to consumers, increasing sales and asset performance. That is a powerful theme for us, and we focus on understanding demand drivers, like schools

and offices, and how consumers behave throughout the day. With that context, we identify the optimal piece of real estate and develop an asset-specific plan to enhance value.

Q As consumers place a greater premium on experience and convenience, how are successful retail destinations evolving?

WK: It all starts with content and context to create a stronger sense of place. Content being the tenancy and merchandising mix; context being the size, location and surrounding demographics of the shopping center. Through those prisms, you can evaluate gaps in market offerings, tailor asset additions to the community, whether that means bringing in better food, services, retail, green space or activations to a project.

We like being able to control our environment and put our own spin on it, creating an optimal space for tenants to conduct business and for consumers to feel comfortable, engaged and excited. The asset needs to be large enough for us to do that, but small enough to capture the supply-and-demand dynamics and drive economic outcomes.

It is also important to keep the center relevant, cycling in fresh brands that resonate with the neighborhood. For that, we introduce direct-to-consumer and first-to-market concepts, as well as short-term brand pop-ups. We have 98 first-to-market tenants in our portfolio and have opened early outposts for Skims, Away, Tecovas and Warby Parker, among others, with pop-ups by the likes of Rivian and Sol de Janeiro.

I can distill our business plan for success simply: vision; strategy; execution. After we identify a desirable market and asset, we outline the vision. The strategy is merchandising, redevelopment and activation. The execution is the capital, both funding and human, leaning on our in-house operational team. That is our line, and it guides our approach daily. ■