What’s in store post-COVID for *retail*

Reopening retail

COVID-19 has brought unparalleled change to the retail industry. The pandemic will have long-lasting impacts on retail and consumer behavior, many of which are unknown as the situation continues to unfold and evolve.

What we do know is that COVID-19 will impact each of the retail sectors differently. Some retailers will exit the pandemic stronger than before, forced to adapt and evolve services and operations much faster than under normal circumstances. Grocery will have fast-tracked e-commerce operations to keep up with demand during COVID-19, and some dining operations will have successfully pivoted to takeout.

We will lose retailers as well. Retailers that struggled prior to the pandemic with sales, like mid-priced apparel and department stores, may not return or will emerge drastically different, unable to weather months of closures.

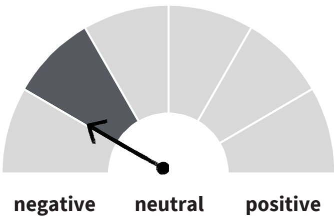
Consumers will have changed during this time too. They will be cautious and cost-conscious, but also eager to return to normal life.

This report includes our view on 13 retail sectors. They have been developed by looking at the health of each sector prior to the pandemic, its resiliency through the last recession, and how likely it will be impacted by changing shopper behaviors.

Sectors

Apparel and accessories
Home improvement
Grocery
Cosmetic and beauty
Dining
Pharmacy and drugstores
Fitness and wellness
Mass merchandise
Consumer electronics
Home décor and furniture
Department stores
Sporting goods and outdoor
Entertainment and theaters

Apparel and accessories retailers will face inventory headaches and a frugal shopper



Cash-strapped consumers will flock to discount and value apparel, while mid-priced apparel will suffer. Luxury brands could see an initial drop in sales but should rebound as they did in the last recession.

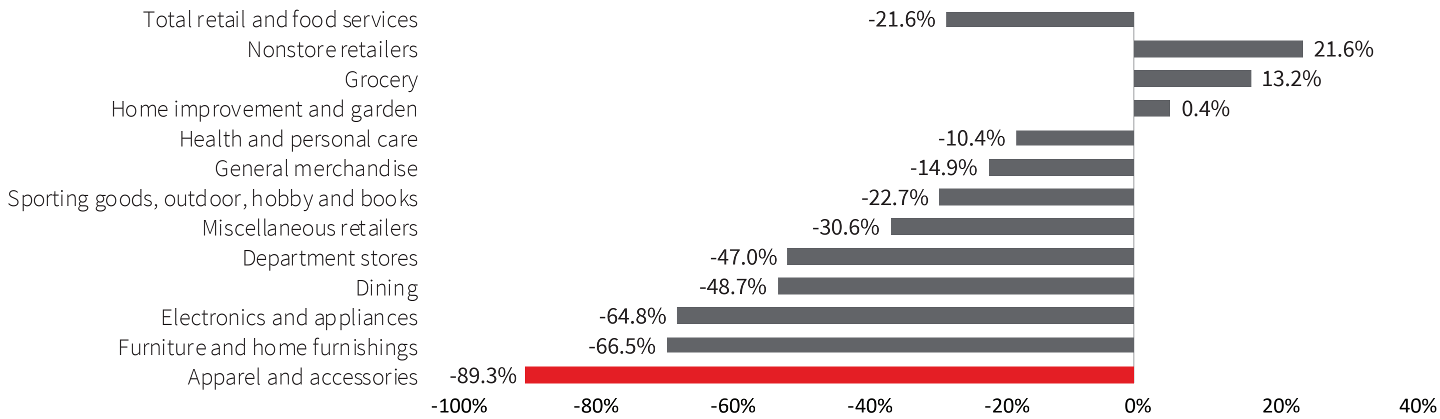
Real estate impact: Open air centers, power centers, and malls

Discount and value retailers are mostly found in open air and power centers, which bodes well for those properties

Malls are especially overexposed to mid-priced retailers. Apparel retailers make up approximately 57 percent of malls (ICSC, 2017).

Apparel & accessory retailers see biggest sales drop in March

As non-essential retailers, apparel and accessories stores were forced to shutter during the COVID-19 crisis and unsurprisingly, sales plummeted 50.7 percent year-over-year in March, and 89.3 percent in April (U.S. Census).



Source: JLL Research, U.S. Census (April 2020)

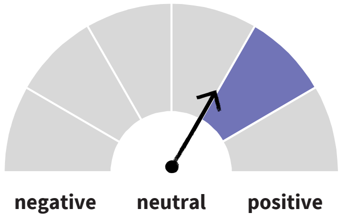
As stores slowly reopen, there will be two major challenges ahead:As stores slowly reopen, there will be two major challenges ahead: how to manage excess inventory and the recession-minded shopper.

Lack of shoppers has meant last season's styles are piling up. Discounts and sales will only move so much inventory when most consumers have serious economic concerns and will be limiting discretionary spending. Off-price apparel retailers will benefit initially from this oversupply of merchandise, but retailers are already canceling future orders as unsold merchandise grows.

The number of new styles entering the market has fallen around 71 percent year-over-year as of late-April (Edited) and U.S. imports of textiles and apparel from China fell 31.7 percent at the start of the year (China National Textile and Apparel Council).

The shoppers that emerge from lockdown will look for value in response to fears of a looming recession. The bifurcation of apparel retailers will be even more pronounced with mid-priced apparel brands facing the greatest challenges. Prior to the pandemic, mid-priced retailers had only seen 2 percent growth over a five-year period, compared to luxury's 81 percent and value's 35 percent (Deloitte, 2018).

Home improvement retailers benefit from 'essential' status and small home projects

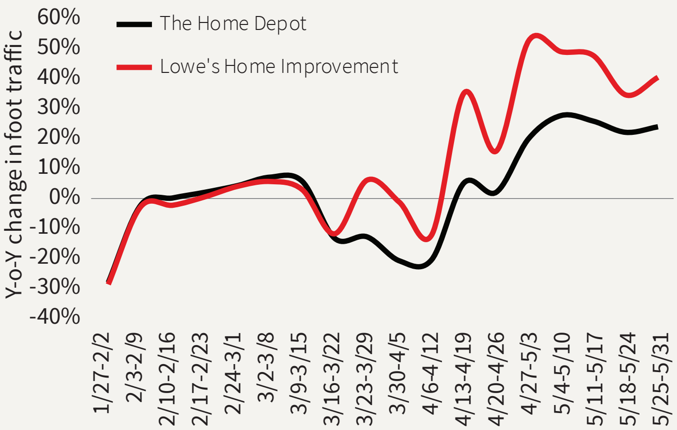


More time at home means consumers will continue with home projects. The disruption to residential construction nationwide will trickle down to this category but we expect foot traffic and sales to remain positive in the short-term.

Real estate impact: Power centers

Home improvement retailers are primarily found in power centers, along with other essential retailers, providing consistent foot traffic to those types of properties.

Home improvement foot traffic has surpassed 2019 levels

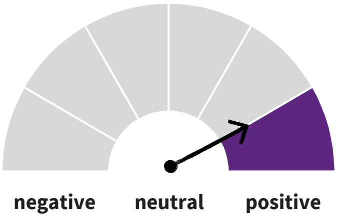


Source: JLL Research

As more people spend time at home, many have turned to home improvement projects. Year-over-year spending for home improvement and garden retailers was up 7.6 percent in March (U.S. Census). Spending decreased in April by 10 percent as people settled in at home but as we enter the summer months, we should see this rebound as more people head to home improvement stores as stay-at-home orders are lifted.

Bigger projects will be delayed though as major renovations are more costly and often require outside help. During the last recession, DIY spending exceeded professional remodeling spending as less-costly projects were favored over hiring professional contractors to perform improvements (Joint Center for Housing Studies, Harvard University 2008).

COVID accelerates e-commerce growth for grocery



Grocery has seen unprecedented demand since stay-at-home orders were mandated. Demand has begun to return to pre-COVID levels, but sales and foot traffic will remain steady.

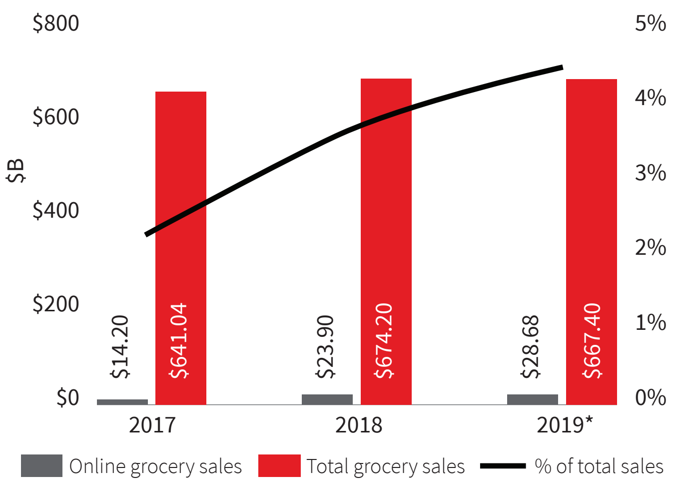
Real estate impact: Neighborhood centers

Grocery-anchored shopping centers, typically neighborhood centers, will benefit the most from the categories' strength.

Online vs. total grocery sales in the U.S.

Grocers saw sales increase 29.3 percent year-over-year in March as millions of consumers rushed to the stores to stock up. People also turned to online services for the first time: grocery delivery app downloads have soared during this period. Instacart downloads increased 218 percent and Shipt downloads increased 124 percent (TechCrunch, March 2020).

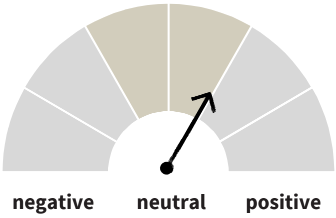
Prior to the pandemic, the grocery sector was relatively untouched by e-commerce. In 2019, online grocery sales were only 4.3 percent of total grocery sales. The pandemic caused many to try online shopping for groceries for the first time, and some will continue to shop this channel when the pandemic ends. According to a survey by CommerceHub, 68 percent are more willing to subscribe to a grocery delivery app after the pandemic and 59 percent said they are more likely to use curbside pickup.



Source: JLL Research, Statista, U.S. Census

The push for delivery and in-store pickup will impact store layouts and traffic flows within grocery-anchored shopping centers and accelerate new store concepts. Expect to see a growing number of dedicated areas for click-and-collect and delivery outside of the grocery store, and in-store areas dedicated to orders waiting to get picked up. In March, Kroger launched a pickup-only store in Cincinnati and quickly saw success. One of the biggest challenges for online grocery fulfillment is the inefficiency of a large store that is designed for shoppers and not fulfillment pickers.

Cosmetic and beauty struggle without in-person experiences, but will rebound



The cosmetics and beauty sectors will see dramatically reduced sales in the first half of the year but will rebound as people return to work and social gatherings resume.

Many salons and barbershops are small businesses and much of their survival will rely on federal and state aid to weather two months of closures.

Real estate impact: All property types

Salons can be found in all retail property types and cosmetic supply retailers are predominantly in neighborhood centers, power centers, and malls.

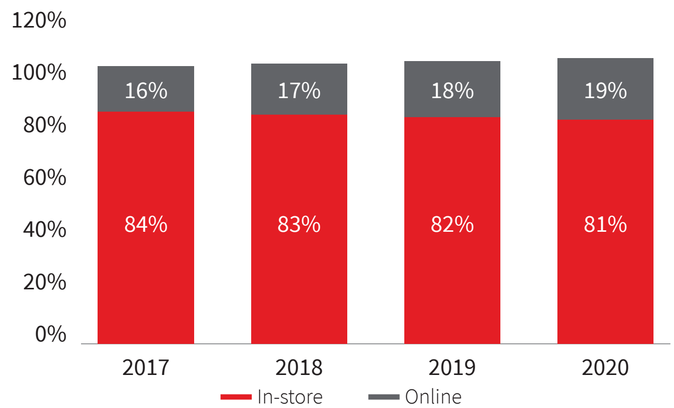
Online sales for beauty and cosmetics are growing but majority still take place in-store

Stay-at-home mandates have essentially eliminated all income from salons and barbershops. As small businesses, many have been able to secure loans through the CARES Act, without which many salons and barbershops would not survive two months of closures.

Once restrictions are lifted and salons reopen, sales should rebound quickly. The demand for haircuts does not fluctuate with the economy which bodes well for the sector as it will be impacted less by recessionary consumers' budgets. It will still be a long road to normalcy as social distancing mandates are still in place, impacting the number of customers salons and barbershops could normally service. For example, a salon in Georgia reports that it has only been able accommodate a third of normal customers since reopening at the end of April.

The lack of social gathering and time in the office has reduced the need for cosmetics and skincare products.

The beauty industry also benefits from the in-store shopper through makeup tutorials and product sampling. Despite some sales shifting online, about 81 percent of sales still occur in-store (Statista).

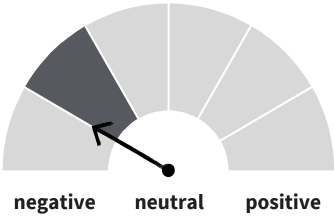


Source: JLL Research, Statista

Ulta recently announced that it will be limiting its original expansion plans for 2020 but has also seen better-than-expected online sales since launching its buy-online-pickup-in-store program during store closures. Same-store sales dropped 35.3 percent year-over-year for the quarter, but e-commerce sales have more than doubled, and online shoppers spend almost three times as much as an in-store shopper (ICSC).

Once stores can reopen, hygiene and social distancing will remain a top concern for shoppers wanting to test products, but sales should bounce back when fully operational. During the financial crisis, spending dropped slightly in 2008 and 2009 but had already rebounded by 2010.

Slim margins put the dining sector at a disadvantage



Quick-service restaurants and well-capitalized fast casual restaurants will succeed as they are more adept at takeout, delivery and drive-thru.

Coffee shops, cafes, casual and fine dining establishments will struggle to continue operations, especially as dine-in policies require restaurants to operate at minimum capacities.

Real estate impact: All property types

Dining establishments can be found in all retail property types.

Malls typically have 9 percent of square footage dedicated to dining options (ICSC). Open air centers frequently feature restaurants in inline spaces or on pad sites.

Illustrative U.S. restaurant proforma	Well run / successful restaurant		@75% revenue		@50% revenue	
Annual Sales	$1,200,00	100.0%	$900,00	100.0%	$600,000	100.0%
Purchases / cost of goods sold	$420,000	35.0%	$325,000	36.1%	$250,000	41.7%
Wages	$360,000	30.0%	$290,000	32.2%	$215,000	35.8%
Rent	$96,000	8.0%	$96,000	10.7%	$96,000	16.0%
Utilities	$36,000	3.0%	$27,000	3.0%	$18,000	3.0%
Marketing / other operations	$60,000	5.0%	$30,000	3.3%	$15,000	2.5%
Other occupancy costs	$156,000	13.0%	$125,000	13.9%	$100,000	16.7%
Total costs	$1,128,000	94.0%	$893,000	99.2%	$694,000	115.7%
Profit margin	$72,000	6.0%	$7,000	0.8%	($94,000)	(15.7%)

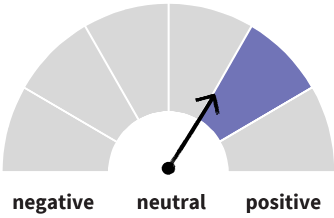
Source: JLL Research (Walter Bialas), JLL Foodservice Consulting, IBISWorld

The restaurant industry lost 5.5 million jobs in April. This significant loss has all but erased the growth the industry has seen in the past several decades. The sector had grown 29 percent since 2010, a pace twice as fast as U.S. job gains. When stay-at-home mandates were ordered, many restaurants pivoted to offer takeout and delivery but with already thin margins, that new model is not making up for lost sales.

Under normal circumstances, dining profit margins are about 5.0 percent and owners and operators generally have two to three months of cash reserves. Only 13 percent of small businesses have enough cash on hand to for 3 or more months of operations (U.S. Census, Small Business Pulse Survey). Third-party delivery apps take significant shares of every order, putting restaurants in a tough spot choosing whether to try and operate and keep on staff for even less profits or stay shut down for the duration of the pandemic.

Even as states begin to reopen, public health officials mandate that restaurants operate anywhere from 20 to 75 percent capacity. On average, if a restaurant is running efficiently at 75 percent, it can expect a 0.8 percent profit margin. At 50 percent capacity, the costs outweigh the profits.

Pharmacies and drugstores remain essential

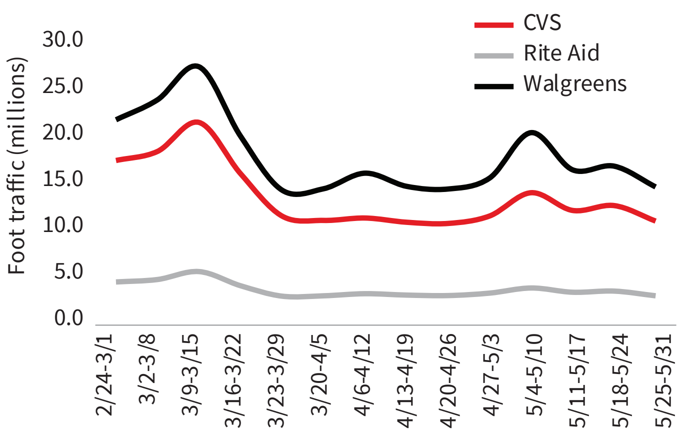


Pharmacies and drugstores are essential businesses that have continued operations during the pandemic and demand for their services will continue.

Real estate impact: Neighborhood and community centers

Pharmacies and drugstores are located within neighborhood and community centers and often as freestanding locations.

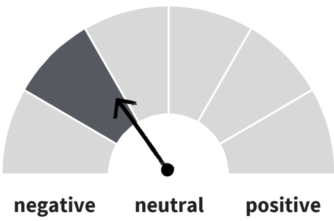
Foot traffic dips at pharmacies but remains positive



Source: JLLResearch

As essential businesses, pharmacies and drugstores have remained open during the pandemic. As stay-at-home orders were announced, there was a rush to drugstores to stock up on essentials including medications and prescriptions. Traffic has since tapered off but remains positive. As testing increases, expect foot traffic to grow at the locations offering that service. At the end of April, Walgreens announced that it has plans to open testing locations in 49 states and Puerto Rico with the goal of testing 50,000 people each week. CVS and Rite Aid have launched similar plans for testing. The success of these programs is yet to be seen, but will not ultimately impact the long-term viability of this sector.

Fitness will struggle with social distancing, but demand will eventually return



In the short-term, social distancing will significantly reduce gym and studio capacity, impacting the fitness sector's ability to rebound quickly.

When normal operations resume, we expect demand for this sector to return, but many smaller studios may not make it.

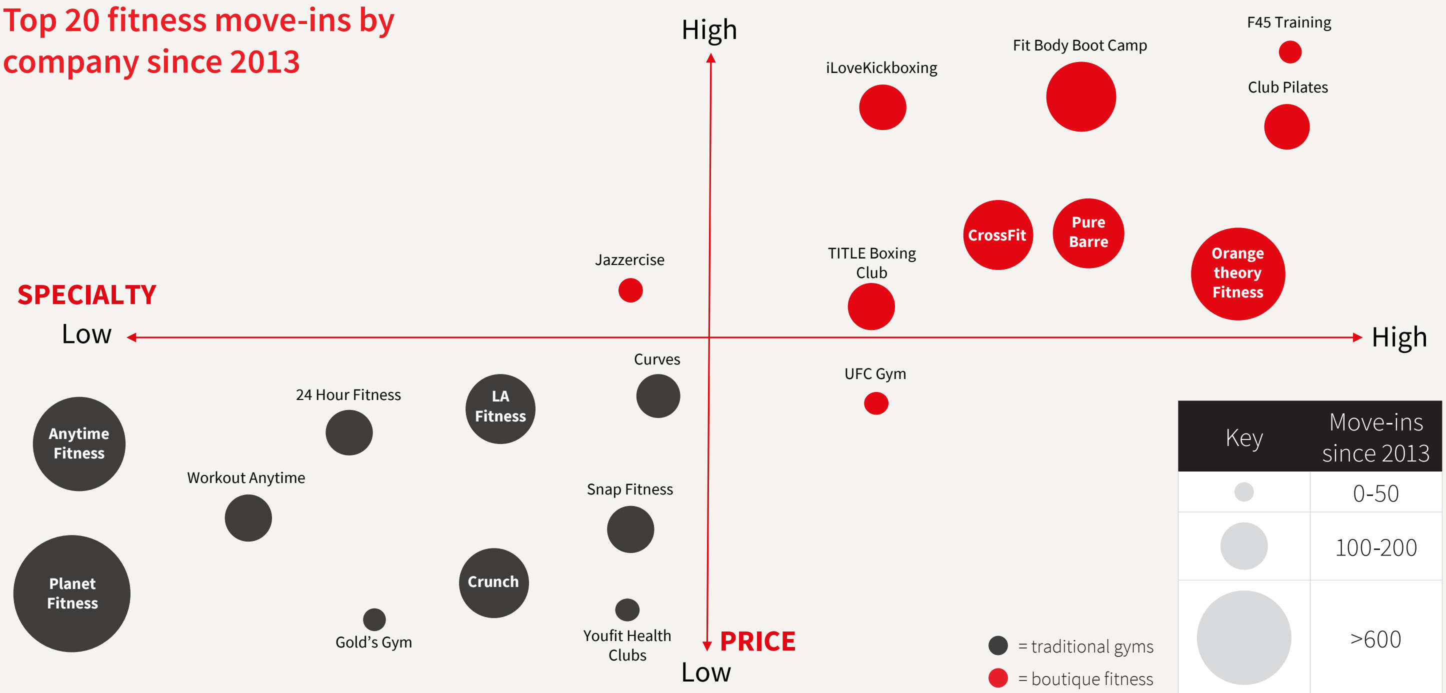
Real estate impact: All property types

Gyms and fitness studios are found in all types of retail centers including neighborhood, community and power centers.

More recently, fitness concepts have become desirable co-tenants in some malls and lifestyle centers.

Prior to the pandemic, it was a golden era for wellness. The number of fitness locations had increased 23.5 percent from 2010 to 2019 and there was an explosion in boutique studios of all types. But with stay-at-home orders and social distancing, fitness concepts were forced to suspend memberships and as their doors reopen, limited capacity requirements will hinder a quick rebound.

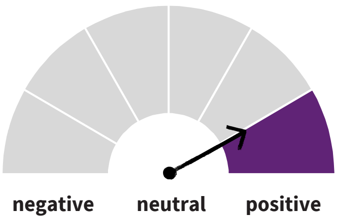
Top 20 fitness move-ins by company since 2013



Source: Costar, JLL Research

Budget gyms perform generally well during a typical recession, with consumers opting for their low monthly fees. But even budget gyms will struggle in this recession, with limited capacity requirements and reduced hours to accommodate for deep cleans between workouts. Many full-service gyms and boutique studios suspended memberships while operations closed, eliminating all cash flow. With rising unemployment, we can expect many people to cancel memberships when doors reopen, especially for costlier gyms and studios. As things normalize, members will return, but it will be slow and limited until a vaccine is widely available.

Budget-friendly mass merchandisers outlook is positive



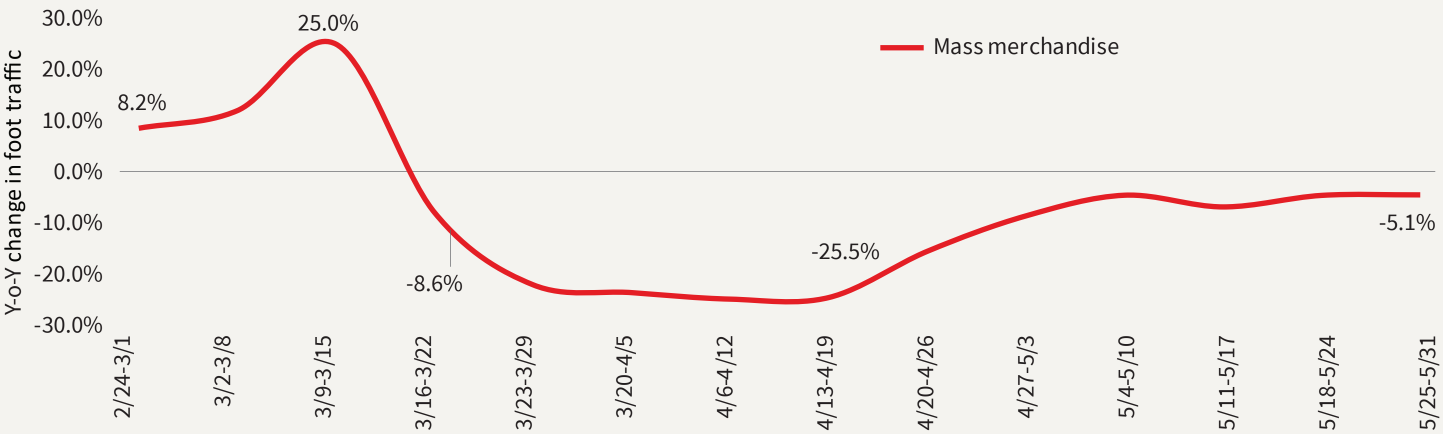
Mass merchandisers, including warehouse clubs and discount dollar stores, will benefit from price-sensitive shoppers as economic hardships continue.

Real estate impact: Power centers

Mass merchandisers are generally found in big box stores in power centers, providing stability for those properties. Dollar stores are often freestanding retail buildings.

Footfall falls with stay at home orders but still hasn't reached 2019 levels

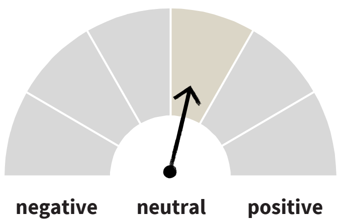
Mass merchandisers were classified as "essential" retail and thus have seen limited impacts to business since the start of the pandemic. Like other essential retailers, mass merchandisers saw an uptick of traffic when stay-at-home orders were mandated. Demand has since tapered off and declined in April but is on the rise as states reopen. Sales for non-food and household items have lessened but should rebound as operations return to normal.



Source: JLL Research

Unemployment has reached levels not seen since the Great Depression. With this amount of economic uncertainty, consumers will be budget-focused and will look to general merchandisers for basic needs. During the 2009 recession, year-over-year sales at Family Dollar increased 6.4 percent and at Dollar General they grew by 9.4 percent (NYTimes, 2009). We expect shoppers will again flock to the value proposition offered by dollar stores and general merchandisers.

Consumer electronics capitalize on time at home



Electronics retailers were able to capitalize on a short-term spike in demand from those stuck telecommuting and home-schooling.

As normal activities resume, we expect sales to eventually return to pre-COVID levels for most retailers in this sector.

Real estate impact: All property types

Consumer electronics retailers are found primarily in power centers and malls.

Smaller consumer electronics retailers can also be found in neighborhood, community and strip centers.

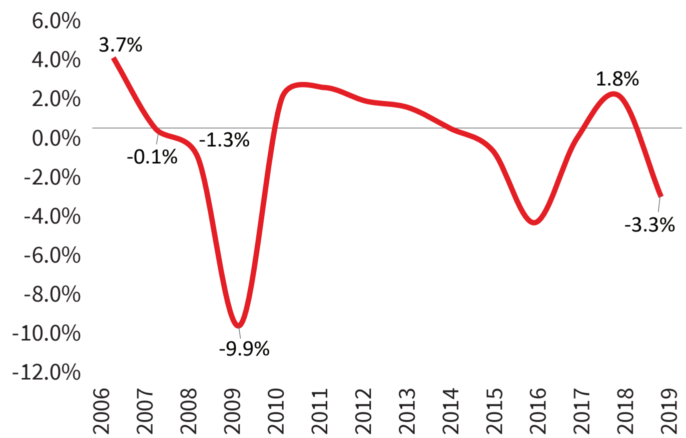
Consumer electronics spending dipped during last recession but rebounded in 2010

Consumer electronics retailers were in a prime position when many Americans had to adjust to spending significantly more time at home. The sector was able to capitalize on the demand for home office technology and electronic entertainment and has seen strong growth in online sales.

Best Buy quickly adapted to curbside pickup and has since reopened stores, allowing the retailer to retain 70 percent of its pre-COVID sales.

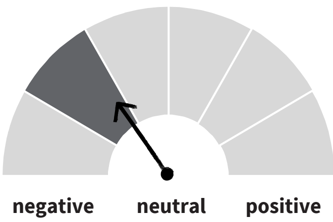
The quarantine demand spike has subsided, but as more consumers telecommute there is opportunity to provide services and products to meet those needs. Furthermore, electronic products remain complicated enough that consumers will choose to shop with brands that have a physical store staffed with knowledgeable associates.

Electronics retailers may suffer through a coming recession, but those that remain will have a continued relevance in the lives of consumers.



Source: JLL Research, U.S. Census

Home décor and furniture demand will fall and rise with the economy



Home décor and furniture stores won't be recessionary shoppers' first stop when stay-at-home restrictions are lifted. However, as summer months approach and vacation travel plans are canceled, there's opportunity for this sector to capitalize on those needs.

As consumers reduce discretionary spending, off-price and value home stores will perform better.

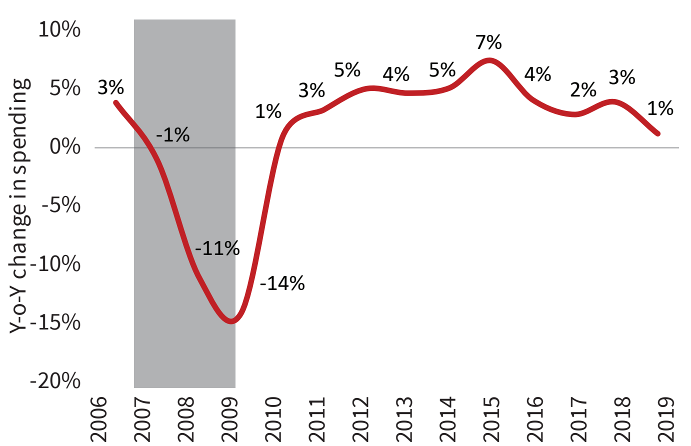
Real estate impact: Power centers, malls

Furniture and home furnishings stores are primarily found in power centers and malls. Stores can also be found in freestanding retail.

Spending on furniture and home goods drops during a recession

Home and furniture stores faced challenges prior to the pandemic with both high competition within the sector and from mass merchandisers. The sector saw a 24.6 percent drop in year-over-year sales in March as people were less likely to spend on bigger-ticket items during economic uncertainty, especially without seeing products in person.

Home décor and home furnishing stores are high-touch, in-person experiences as shoppers want to test products before making a purchase. However, as consumers spend more time at home, there has been a surge in home improvement projects which often includes upgrades to décor. Wayfair saw sales more than double in April.

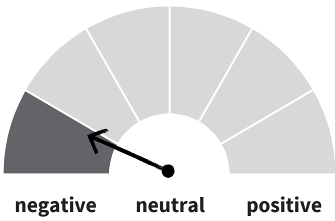


Source: JLL Research, U.S. Census

As restrictions are lifted, home and furniture stores will not be consumers' first stop as budgets tighten, but sales should rebound with the economy.

In the long-term, the pandemic will have forced home goods retailers to rethink how they interact with customers and innovate the model for furniture shopping. Direct-to-consumer brand Burrow House launched Home, a virtual design consultation service in March. According to the brand, the service has done well and allowed the company to reach customers outside of its trade area, so it will continue offering the service after the pandemic.

COVID accelerates mid-priced department store woes



Department stores that have not evolved to connect with the customer on experience or price will battle for relevance. High-end and value-oriented department stores will more quickly find a footing, while mid-priced department stores will struggle.

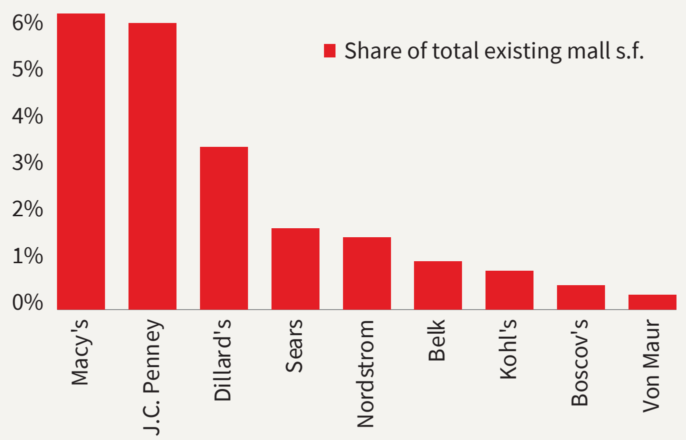
Real estate impact: Malls

Malls are anchored by at least one department store but could have up to four. Off-price department stores can be found in power centers.

Department stores continue to face headwinds as consumers choose to shop at discount mass merchandisers, specialty stores and online.

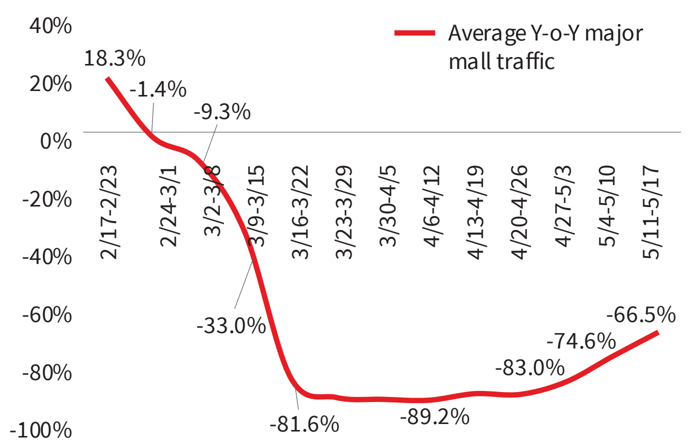
In recent years, mall owners have begun to search for other anchor tenants like entertainment or dining, but 46 percent of gross leasable area in U.S. malls and shopping centers is still devoted to department stores.

Macy's is the largest U.S. mall tenant by s.f.



Source: CoStar, Q1 2020

Mall traffic begins a slow climb back to pre-COVID levels

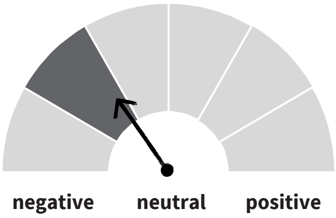


Source: JLL Research

Department stores face many of the problems of apparel and accessories retailers: excess inventory and recessionary shopper budgets. Mid-priced department stores will struggle for market share as discount department stores fare better. High-end department stores will attract wealthy shoppers to high-touch experiences and specialty goods.

This year has already seen Neiman Marcus and J.C. Penney file for bankruptcy. Nordstrom has announced that it will close 19 stores and prior to the pandemic, Macy's announced that it would be closing 125 of its 870 stores. According to the Telsey Advisory Group, average sales could decline 41 percent in the first half of the year. As states allow shopping centers to reopen, shoppers are slowly returning. However, as states reopen at different speeds and to different capacities, the timeline for achieving normalcy will be long.

Heavy reliance on school sports will hinder sporting goods rebound



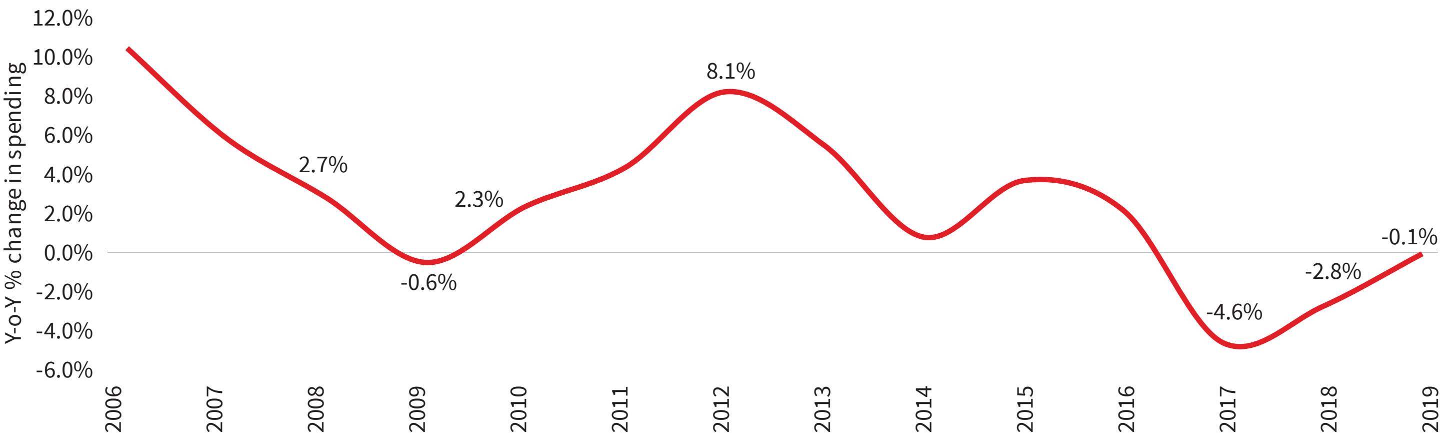
Sporting goods stores rely heavily on demand from student teams. Demand should rebound when schools and team sports fully resume.

Outdoor stores have a steadier outlook as people return to outdoor activities over the summer months.

Real estate impact: Power centers, malls

Sporting goods and outdoor retailers are primarily found in power centers or as freestanding retail. Some also operate in malls.

Spending decreased only slightly for sporting goods during the last recession but has tapered off in recent years



Source: JLL Research, U.S. Census

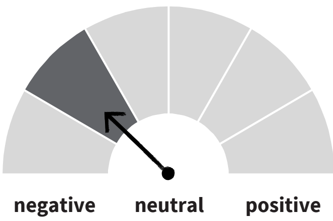
Sporting goods and outdoor retailers benefited in March as shoppers went online to buy workout equipment and gear when gyms and studios closed. Retailers selling guns and ammunition saw a surge as well, with a 222 percent year-over-year jump, according to Ammo.com.

Prior to the pandemic, sporting goods stores had struggled with product differentiation and price competition from mass merchandisers. Modell's, one of the oldest sporting goods brands, filed for bankruptcy in early March citing diminished sales of sports apparel and millions in unpaid debts. Sports Authority filed for bankruptcy in 2016 and closed all stores.

Without sports at all levels, from professional to little league, sporting goods retailers stand to lose. Sports participation has generally followed an upward trend over the past five years but with a suspension of almost all sporting events, participation is now in freefall. Only time will tell how quickly team sports can return.

Outdoor retailers have developed customer allegiances in recent years by aligning with their social and environmental values. Patagonia was one of the first retailers to close all stores and distribution centers across the country to protect its employees. Retailer reactions to the pandemic will be important for many shoppers as they choose where to spend with tighter budgets when stores reopen. Retailers that supply more solitary sporting activities like hunting, fishing and camping will find demand relatively unaffected.

Recessionary budgets will hinder spending on entertainment



When movie theaters reopen, social distancing and a lack of new content will significantly hinder the sectors rebound.

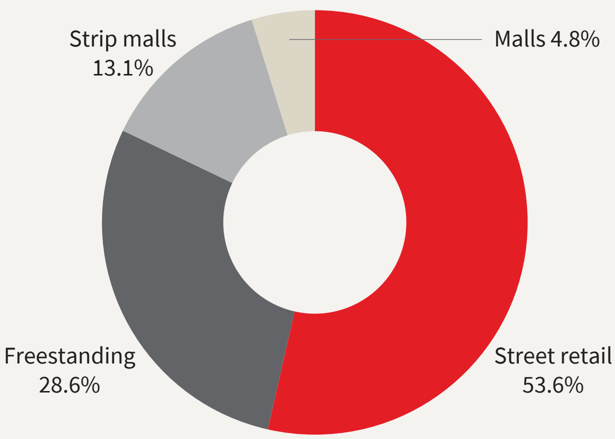
For entertainment concepts, demand will resume but it will be slow as many people hesitate to be in crowds and as recessionary budgets limit discretionary spending.

Real estate impact: All property types

Movie theaters are found in malls or as freestanding retail.

Entertainment concepts are found in all retail types, particularly as freestanding retail and along street fronts, but are increasingly found in malls.

Majority of entertainment and leisure concepts are located in urban corridors

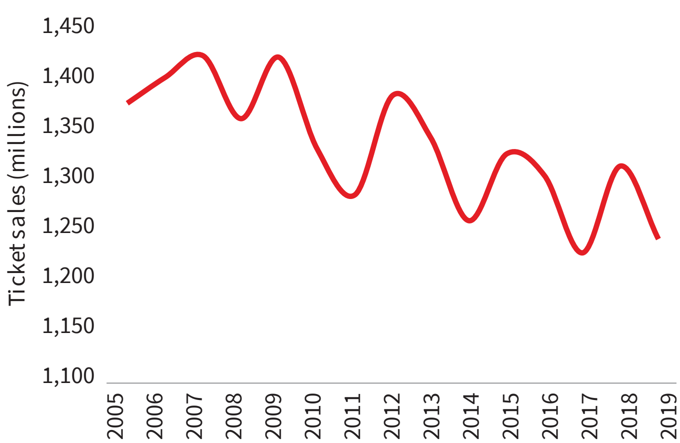


Source: JLL Research

Prior to the pandemic, entertainment concepts were the new, exciting uses for retail space. From competitive socializing concepts like axe throwing and beercades to pop-ups like Candytopia and the Museum of Ice Cream, these tenants were desirable for their ability to create experiences that drew in crowds.

With mandatory closures, sales plummeted to near zero. Now that states are reopening, some concepts are seeing customers, but at levels far below pre-COVID levels as people are hesitant to return to places with crowds. For example, when Bad Axe Throwing was able to reopen in Atlanta at the end of April, the CEO reported two customers over the entire first weekend. Demand will return for these experiences, but it will not be immediate.

Box office ticket sales have been declining over the last decade in North America



Source: JLL Research, IBISWorld

Movie theaters had faced their own headwinds prior to the pandemic. They had increasingly become reliant on big blockbusters that came out just a few times a year with fanfare powerful enough to pull fans away from their couches and streaming services and into the theater. To stay competitive, movie theaters have been elevating the viewing experience with upscale food and beverage offerings and better seating. Attendance overall has been trending down, but revenue has been steady due to higher ticket and F&B prices.

Now, forced to operate at limited capacity, theaters will have a difficult time returning to pre-COVID activity. It will take people some time to feel comfortable sitting next to strangers in an enclosed space. According to an ICSC consumer survey at the end of April, 45 percent of adults would feel comfortable returning to movie theaters within two months. Theater demand will return, but the industry will change. Expect smaller footprints and fewer screens.

JLL

Contact

James Cook
Americas Director of Research, Retail
JLL
jamesd.cook@am.jll.com

Taylor Coyne
Research Manager, U.S. Retail
JLL
taylor.coyne@am.jll.com

About JLL Research
Jones Lang LaSalle's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial Real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivaled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

About JLL Retail
JLL's retail experts partners with retailers, investors and owner/operators with an extensive team of dedicated experts around the world. They understand the inherent complexities and variability associated with both the retail industry and increasingly complex capital markets. Its specialists are recognized for their independent and expert advice to clients, backed by industry-leading research that delivers maximum value. With leading in-depth knowledge of the local, regional and global market dynamics, JLL aims to truly partner with its clients for the entire lifecycle of an asset or lease. Its experts deliver clients maximum value that support and shape their investment, site selection and brand strategies.

JLL is the largest third party retail property manager in the United States with more than 1,000 centers, totaling 125 million square feet under management. The firm has more than 140 retail brokerage experts spanning more than 30 major markets, representing more than 900 retail clients. In 2015, JLL's Retail Group completed transaction management and portfolio optimization on 1,500+ leases, negotiated 500+ leases for retailers and 1,000+ leases for landlords and completed more than $2.7 billion of investment sales, dispositions and financing for investors. For more news, videos and research from JLL's Retail Group please visit: www.jll.com.