U.S. Retail Market Outlook

A boom scenario is in the works.
It's going to be uneven, but it's also going to be big.

MARCH 2021

Investment Thesis

Background

- The COVID-19 recession did ***significant damage to the retail sector***, which was already facing secular headwinds going into it.
- ***Nearly 15,000 stores closed*** in the U.S. in 2020, rendering 51.8 million square feet (msf) of shopping center retail space empty.
- In addition to the recessionary impacts, ***e-commerce made significant penetration*** in categories that were once dominated by bricks and mortar.
- But all signs indicate that ***the pandemic is winding down***. The consensus is that herd immunity will be achieved by September 2021, if not sooner.
- The ***e-commerce/retail mix is normalizing*** as more people are getting immunized and shopping at stores becomes an option again.
- After a solid year of doing very little, ***people are bursting to let loose: travel, shop, eat-out, experi*ence.**
- Significant wealth has been building throughout this pandemic. Estimates show there is nearly $2 trillion of excess savings burning a hole in people's pockets. The ***pent-up demand dynamic is real***, it is going to be unleashed, and it is going to be big.

*Opportunity

- Repricing will open opportunities in 2021
- Retail survivors will gain significant market share and be in position to grow and thrive
- All things experiential—high-end restaurants, food halls, entertainment, health/fitness, convenience, lifestyle centers—golden years lie ahead

**more investment ideas shown at the end of the report*

Agenda:

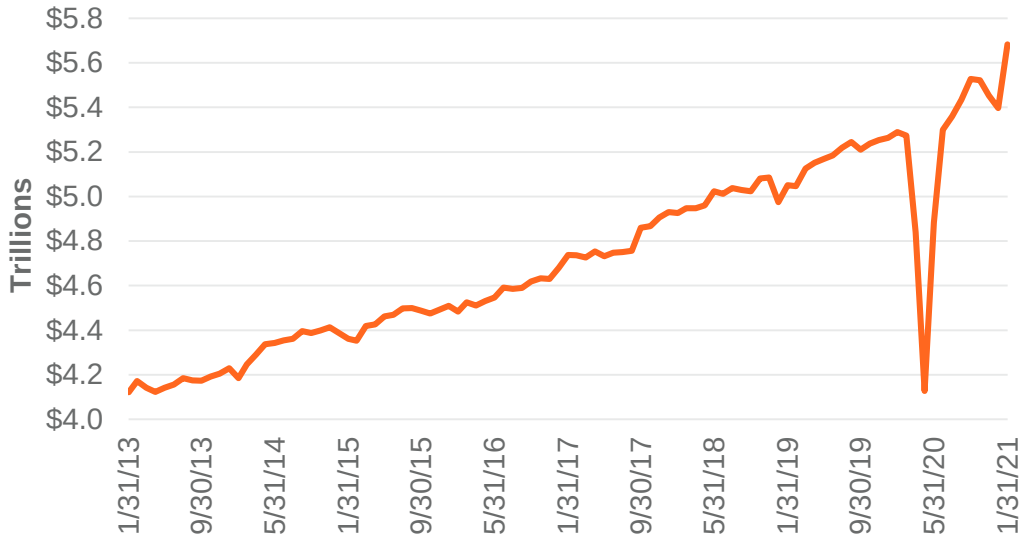
Part I: COVID-19 Recession Impact

Part II: Pent-up Demand Analysis

Part III: Outlook - A Golden Era for Certain Concepts

Part I: COVID-19 Recession Impact

U.S. Retail Sales:
V Shape Recovery in the Aggregate

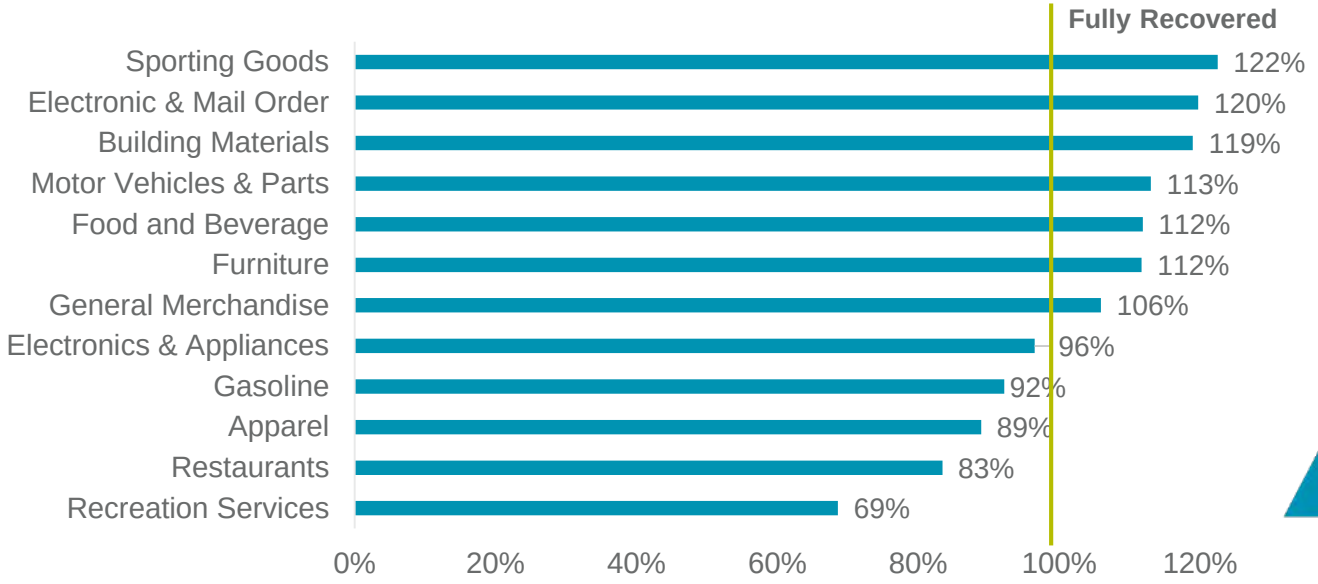


- In April 2020, retail sales plunged as lockdowns took effect.
- Consumer spending bounced back sharply in the following months as the economy reopened and as stimulus checks were distributed.
- However, the rebound was concentrated in only certain segments of the retail sector (malls and experiential concepts continued to struggle all year long).

Source: U.S. Census Bureau: Cushman & Wakefield Research

But the Recovery was Highly Uneven

Retail Sales: Percent Recovered*



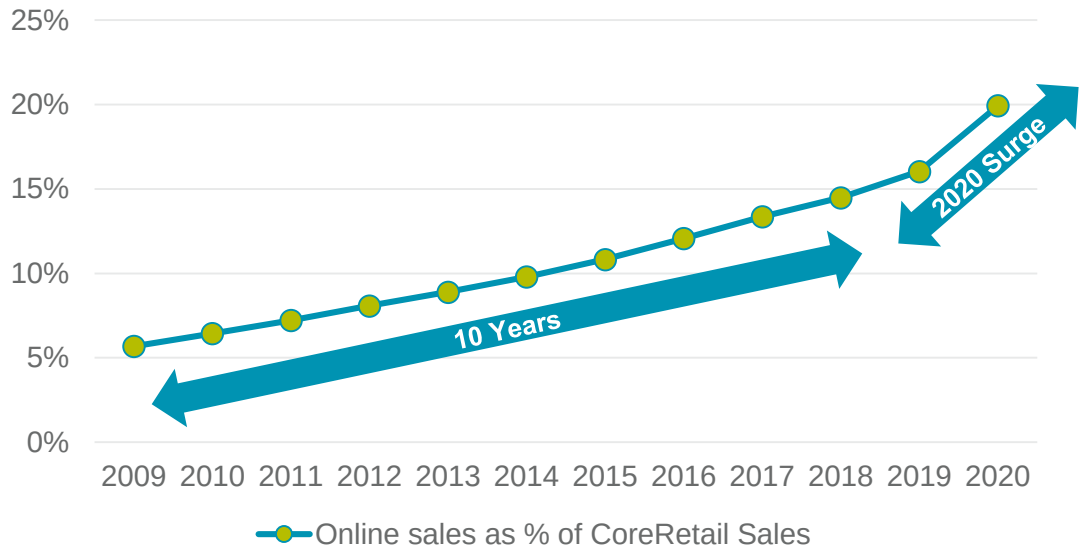
Source: Census Bureau

**Percent Recovered = Retail sales in February 2021 as a percentage of what they were in January 2020.*

And E-Commerce Made Significant Penetration

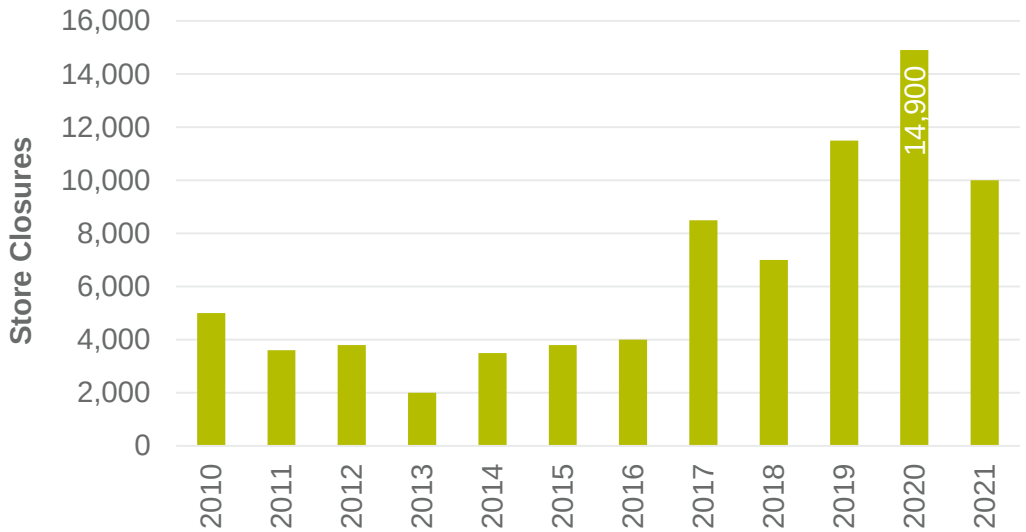
U.S. E-Commerce as a % of Core Retail Sales

E-Commerce Penetration	Before	After (F)
Apparel & Accessories	29%	40%
Auto & Parts	5%	10%
Books, Music & Video	55%	68%
Consumer Electronics	43%	55%
Food & Beverage	3%	15%
Furniture & Furnishings	24%	42%
Health & Beauty	11%	25%
Office Supplies	27%	60%
Other	24%	40%
Toys & Hobby	37%	50%



Source: U.S. Department of Commerce, ShawSpring Partners, Bank of America
Core Retail Sales = Total Retail Sales excluding Motor Vehicles and Parts, Gasoline and Food Service and Drinking Places

The Net Impact was many U.S. Store Closures



- Nearly 15,000 stores closed in 2020—a record.
- As a result, 51.8 msf of newly created retail vacancy.
- CoreSight predicts another 10,000 stores will close in 2021.
- The revolution in retail is still in early days.

Source: Company filings, Media Reports, Department of Commerce, Cushman & Wakefield Research, CoreSight Research. 2020 estimate-BDO, 2021 forecast by CoreSight Research 1/28/21

2020 Select U.S. Store Closures

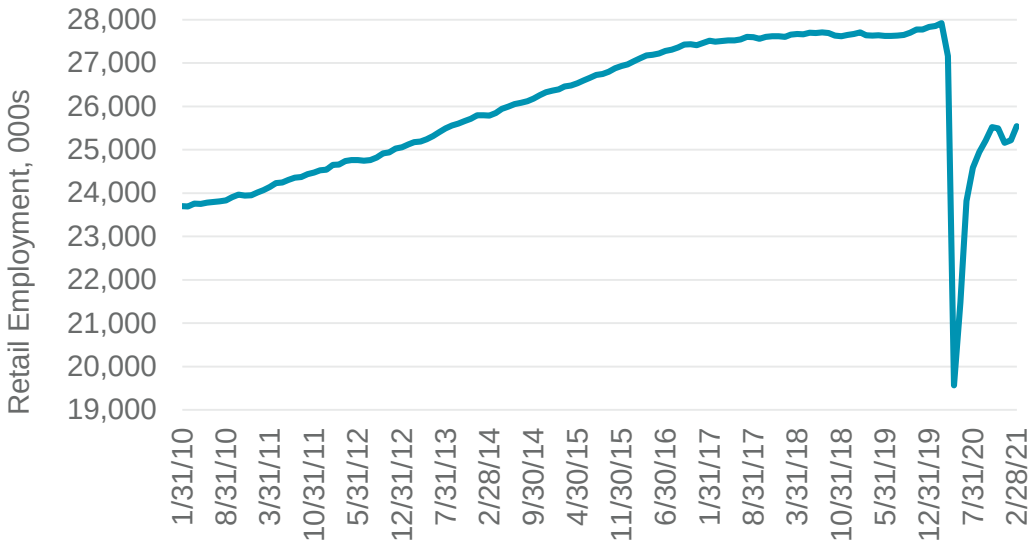
Company	Closures	Company	Closures	Company	Closures
Ascena Retail Group	1,000	American Eagle Outfitters	225	Sur La Table	71
Inditex	1,000	Bed, Bath & Beyond	200	YogaWorks	60
Pier 1	991	Carter's	200	Flywheel Sports	42
GNC	726	G-III Apparel	199	Le Tote / Lord & Taylor	38
Stage Stores	726	Tuesday Morning	198	Gold's Gym	34
Tailored Brands	500	Art Van Furniture	169	L'Occitane	28
GameStop	450	PVH Corp	162	True Religion	27
Christopher & Banks	449	J.C. Penney	157	Stock+Field	25
Starbucks	400	24 Hour Fitness	135	Neiman Marcus	24
RTW Retailwinds	387	Modell's	134	Century 21 Department Stores	13
Pet Valu	358	Caleres	133	Love's Furniture	13
Gap	350	Macy's	125	Town Sports International	13
Signet Jewelers	300	Bose	119	H&M	10
The Children's Place	300	Brooks Brothers	119	KB US Holdings	9
Stein Mart	281	Chico's	110	Chinos (J. Crew)	8
Bed Bath & Beyond	263	Express	100	John Varvatos	8
SFP Franchise	254	Guess	100	Muji U.S.A	7
AT&T	250	Office Depot	90	Old Time Pottery	4
L Brands	250	Microsoft	83		
Francesca's	237	Designer Brands	80		

Source: BDO, U.S. Bankruptcy Court, Cushman & Wakefield Research

Fewer Jobs = Less Space

U.S. Retail Employment

- The U.S. economy cut 8.3 million retail and restaurant jobs in March/April 2020.
- As of Feb 2021, businesses had hired back 6 million of those jobs.
- Retail employment is still down 2.4 million, but on the mend.

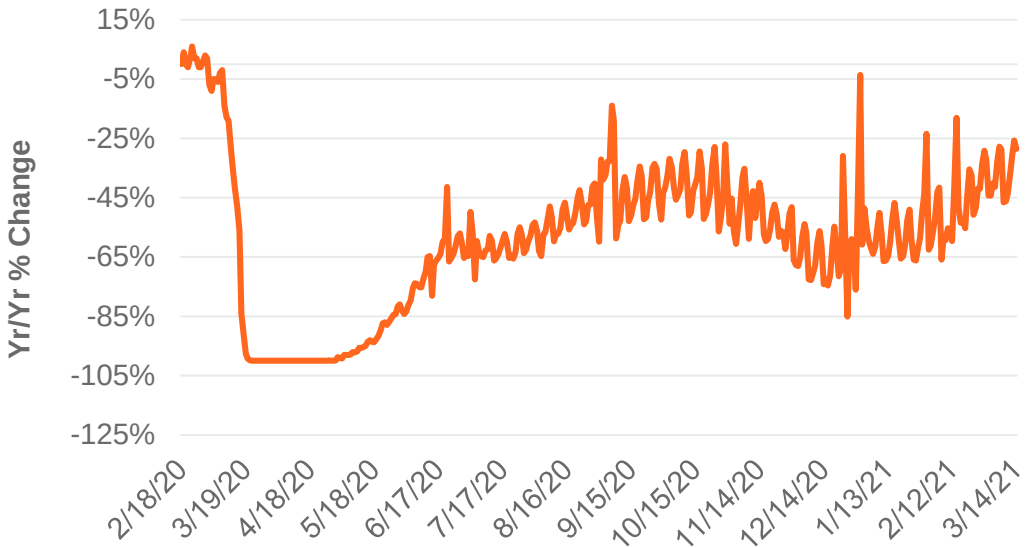


Source: U.S. Bureau of Labor Statistics

Restaurant Reservations Fell to Zero, Slowly Recovering

U.S. Open Table Reservations

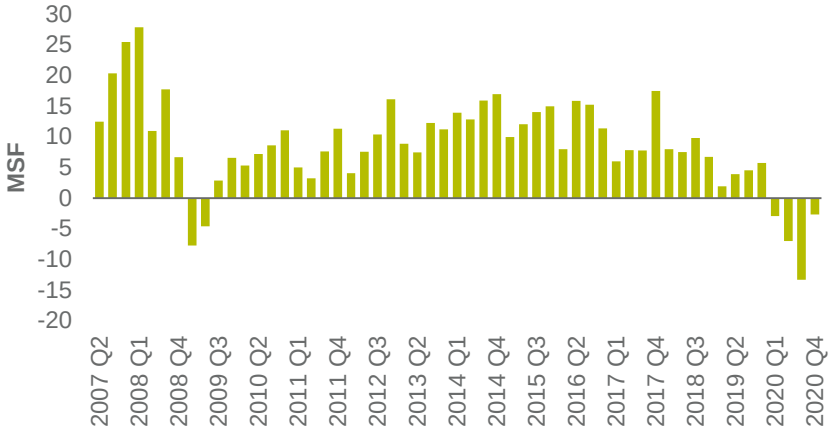
- There was nearly a complete shutdown of indoor dining, globally.
- In the U.S., there were 12.2 million people employed in food and beverage before COVID-19 hit. By April 2020, there were 6.3 million.
- As the vaccine gets rolled out, restaurant reservations are trending up quickly.
- Restaurant bookings are up 40% since December 2020.



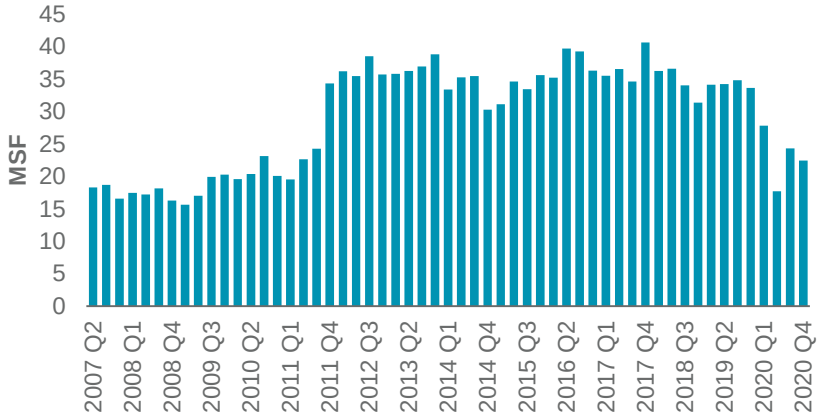
Source: Open Table https://www.opentable.com/state-of-industry

U.S. Retail Real Estate Gets Hit Hard

Net Absorption



New Leasing Activity

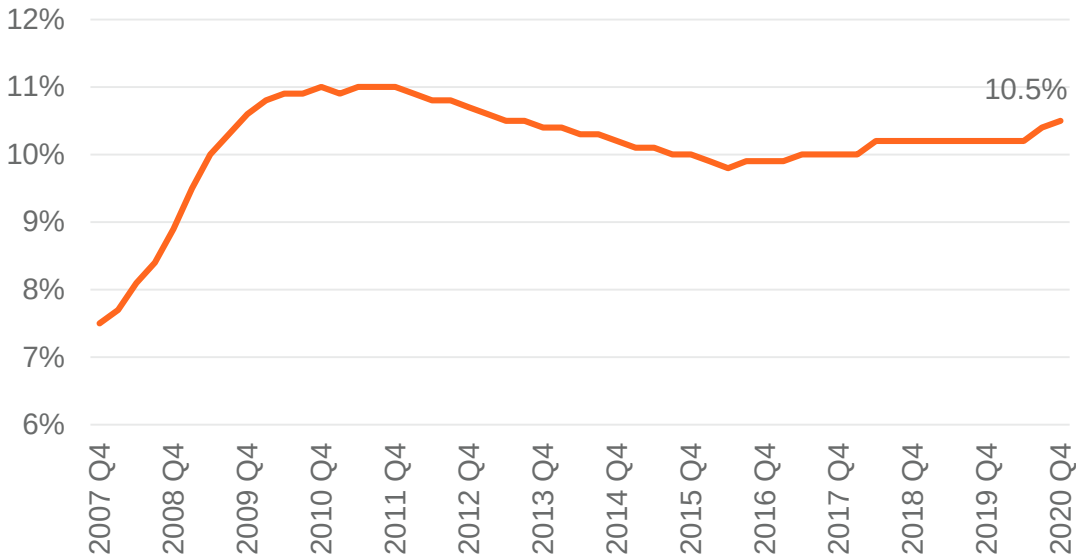


Source: CoStar

- Demand for retail space plunged—2x worse than the Great Recession.
- Leasing volumes also plunged sharply, though started to pick up towards the end of 2020.

U.S. Retail Vacancy Rises to Highest Level in Seven Years

Overall Vacancy

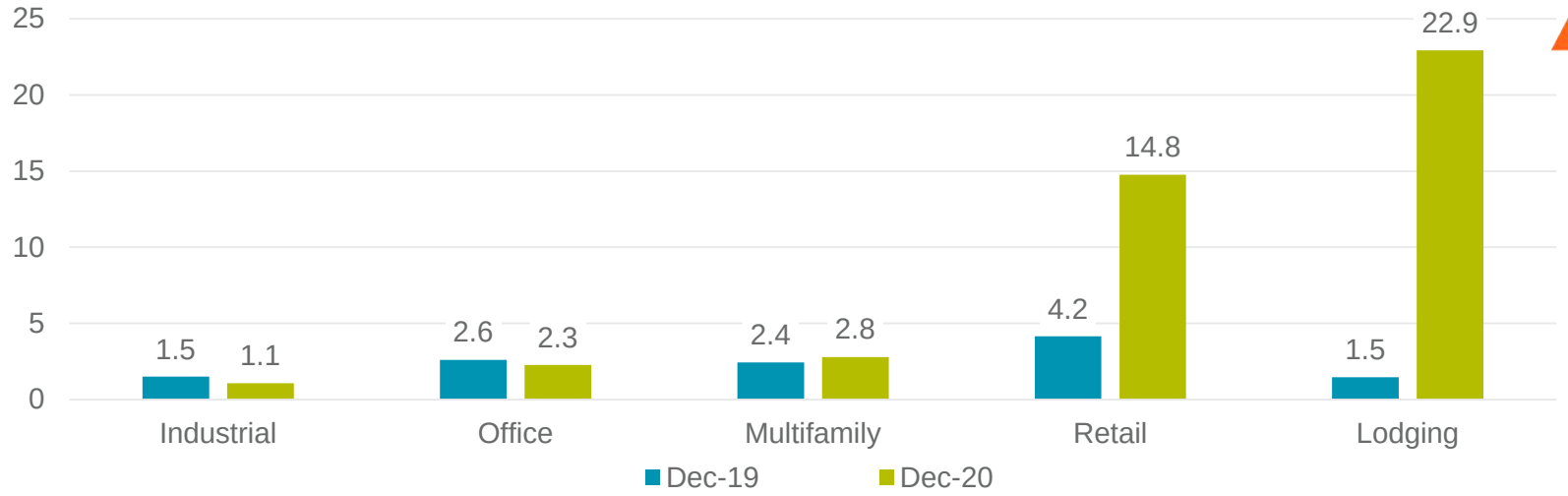


Region	Vacancy
Power Center	8.2%
Neighborhood & Community	10.3%
Strip Center	8.3%
Grocery-Anchored Center	5.0%
Class A Center	7.1%
Class B Center	9.4%
Class C Center	11.3%

Source: REIS, CoStar, Cushman & Wakefield Research

Troubled Assets on the Rise

U.S. Delinquency Rate by Property Type (% 30 Days +)



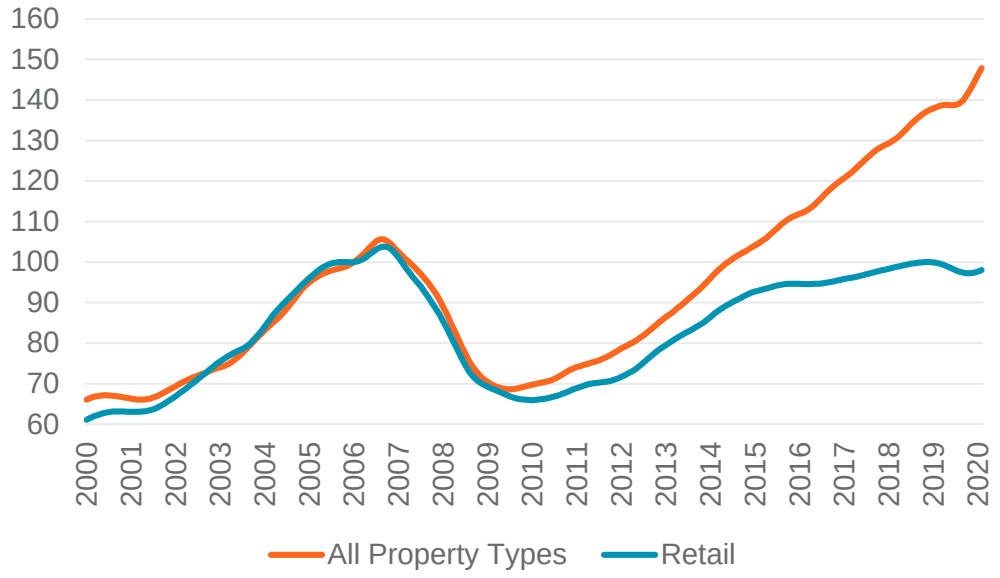
Source: Trepp

- Tenants' inability to pay rent is putting pressure on owners.
- CMBS delinquency rates tripled in the retail sector in 2020.
- Repurposing/reimaging retail buildings for the new economy is an enormous area of opportunity.

Pricing Gap Widens

U.S. Commercial Property Price Index

- Retail price growth began to lag other property types starting in 2010, due to the e-commerce effect.
- However, e-commerce has only gained 7% market share over that same time.
- The price gap between retail and other properties now stands at 32%, indicating an overcorrection.
- This price gap will close.
- High-quality, well located retail will continue to outperform.



Source: Real Capital Analytics

But There Was Growth

Announced Expansion Plans 2020/21

Retailer	Future Expansion	Retailer	Future Expansion	Retailer	Future Expansion
7-Eleven	6,300	Qdoba	55	Slim Chickens	30
Dollar General	1,000	Burlington	54	Ace Hardware	25
Sonic Drive-In	1,000	Take 5 Oil Change	50	Culver's	25
Dollar Tree/Family Dollar	500	Sheetz	50	Harbor Freight Tools	24
Bank of America	500	Lidl	50	Costco	23
Aldi	450	Raising Cane's	50	Sprouts Farmers Market	20
Chase Bank	400	AutoZone	49	Pet Supplies Plus	20
Casey's General Stores	350	Target	49	Texas Roadhouse	20
O'Reilly Auto Parts	180	Old Navy	40	Del Taco	20
Five Below	120	RaceTrac/Raceway Petroleum	40	Life Time	18
Quik Trip	118	Whole Foods	40	Sherwin-Williams	17
IHOP	90	Bojangles	40	WaWa	15
Tractor Supply Company	80	Whataburger	40	Marshalls/T.J. Maxx	12
Checkers Drive-In/Rally's	80	Ross Dress For Less	39	Michaels	11
Sunbelt Rentals	75	Dairy Queen	38	Trader Joe's	11
Aspen Dental	75	Chipotle Mexican Grill	37	PNC Bank	11
Shake Shack	60	Shopko Optical	35		
Hobby Lobby	55	Jack In The Box	35		

Source: Stan Johnson Co., Cushman & Wakefield Research

Top Expansion Categories

- Clicks-to-Bricks
- Bank Branches (smaller sizes)
- Discount Grocery
- Dollar Stores
- Home Improvement
- Quick Service Restaurants
- Super Stores (smaller sizes)

Where Will the Demand Be?

Impact of Net Migration

- The pattern of migration in 2020 was similar to what we have seen in the past:
- Large northern cities tended to experience a net out-migration along with a large movement from southern California.
- The sunbelt along with Southeast and Southwest MSAs saw the largest in-migration.

TOP 10 MIGRATION OUTFLOWS

10	New York-Jersey City-White Plains, NY-NJ	-90,000
9	Chicago-Naperville-Arlington Heights, IL	-53,000
8	Los Angeles-Long Beach-Glendale, CA	-40,000
7	Anaheim-Santa Ana-Irvine, CA	-18,000
6	Detroit-Dearborn-Livonia, MI	-14,000
5	Nassau County-Suffolk County, NY	-12,000
4	San Diego-Carlsbad, CA	-8,000
2	New Orleans-Metairie, LA	-7,000
3	Newark, NJ-PA	-7,000
1	Buffalo-Cheektowaga-Niagara Falls, NY	-6,000

TOP 10 MIGRATION INFLOWS

1	Phoenix-Mesa-Scottsdale, AZ	76,000
2	Atlanta-Sandy Springs-Roswell, GA	54,000
3	Houston-The Woodlands-Sugar Land, TX	52,000
4	Dallas-Plano-Irving, TX	42,000
5	Las Vegas-Henderson-Paradise, NV	38,000
6	Austin-Round Rock, TX	35,000
7	Orlando-Kissimmee-Sanford, FL	30,000
8	Tampa-St. Petersburg-Clearwater, FL	29,000
9	Charlotte-Concord-Gastonia, NC-SC	28,000
10	Nashville-Davidson--Murfreesboro--Franklin, TN	27,000

Source: Moody's Analytics; Cushman & Wakefield Research

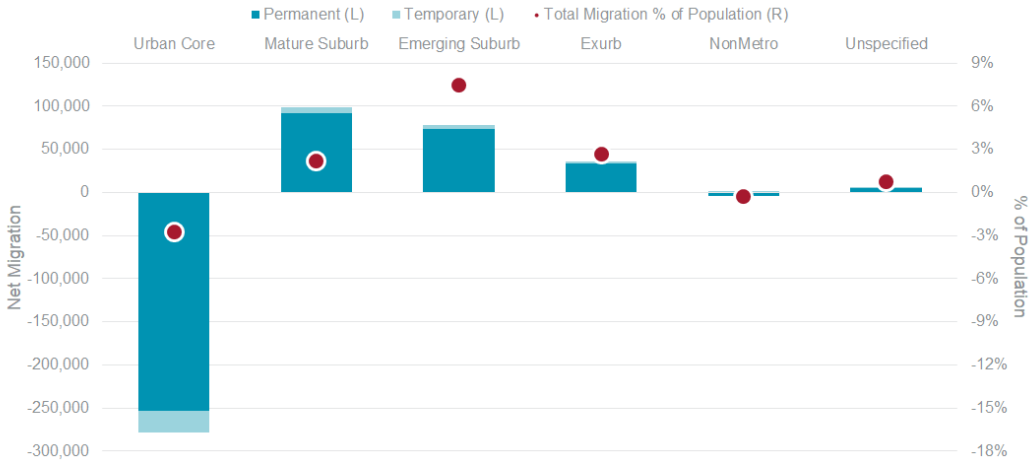
Where Will the Demand Be?

Urban vs. Suburban

- There has been some movement from urban core to suburbs as concerns about COVID-19 accelerated the millennial push to the suburbs.
- But this trend emerged a few years back as more millennials reached their 30s.
- Net result—more suburban opportunity, especially around transportation hubs.
- But urban high streets will recover as new residents arrive and tourism recovers.

Net Migration & Percent of Population by County Type

Permanent and Temporary Net Migration (March-December 2020)



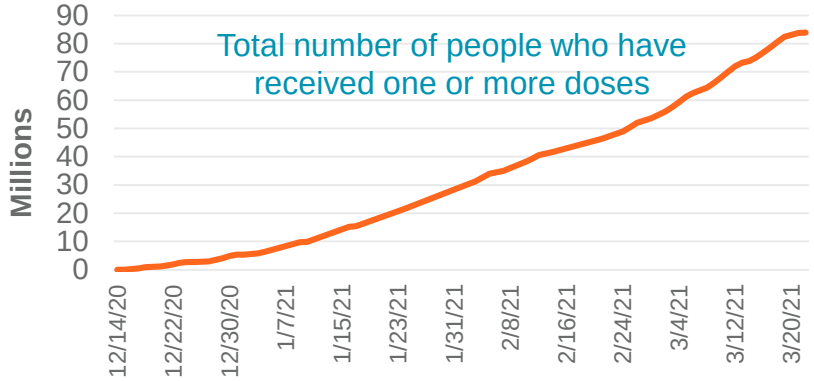
Source: U.S. Postal Service, U.S. Census Bureau, Cushman & Wakefield

Part II: Pent-up Demand Analysis

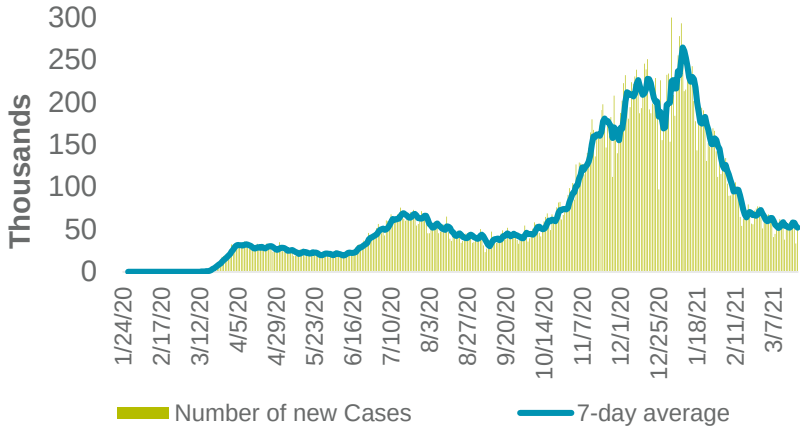
The March to Herd Immunity

United States

Vaccination Numbers Rising



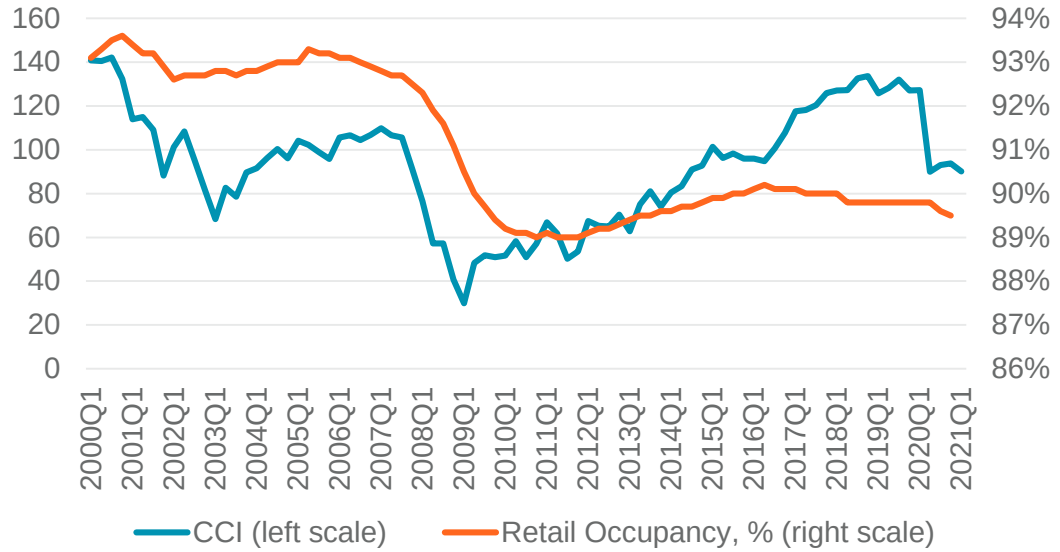
New Infections Falling



- The virus is the principal drag on the retail sector, not e-commerce.
- Vaccinations are ramping up while infections and hospitalizations are declining.
- The situation remains fluid, but herd immunity is looking increasingly likely to be achieved this summer.

Source: Johns Hopkins Coronavirus Resource Center, Centers for Disease Control

Consumer Confidence is Key



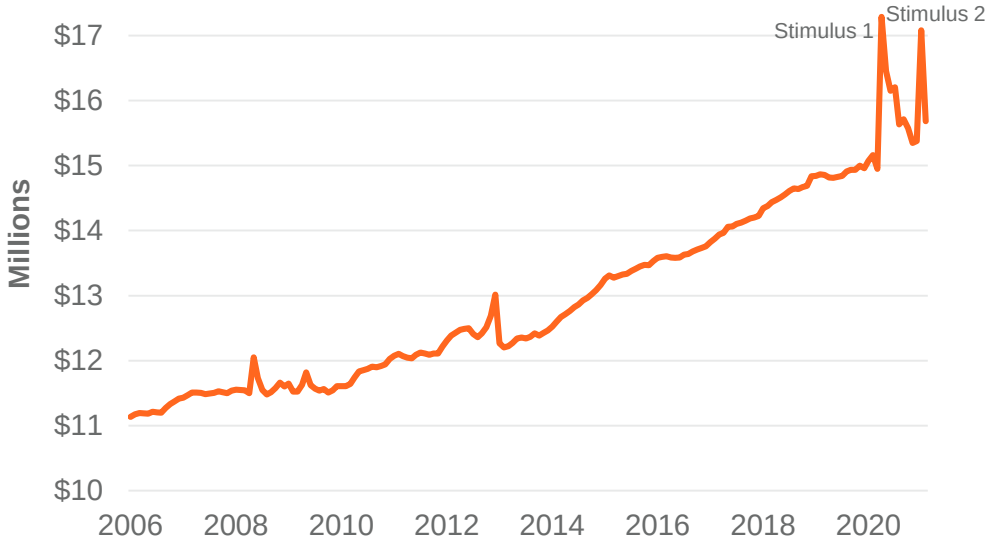
- Consumer confidence correlates with retail occupancy (i.e., when people are confident, they increase spending which boosts demand for retail space).
- The relationship has weakened in recent years due to e-commerce gaining share, but confidence is still important.
- Consumer confidence plunged in the second quarter of 2020—the nadir of the recession—and remains 30 points below pre-pandemic levels in early-2021.
- Going forward, this will be a critically important indicator to watch in gauging the future trajectory of the retail sector.

Source: The Conference Board; Reis, Cushman & Wakefield Research

The Pump Is Primed: Income

Real After-Tax Income

- In April 2020, the first stimulus package increased inflation-adjusted after-tax income a record 15%.
- The second stimulus package pushed income up 11.4%.
- President Biden signed a third stimulus ($1.9 trillion) on March 11, 2021.
- This is the strongest income growth ever recorded and much of it has not yet been spent.



Source: Bureau of Economic Analysis

The Pump Is Primed: Savings

Personal Savings Rate

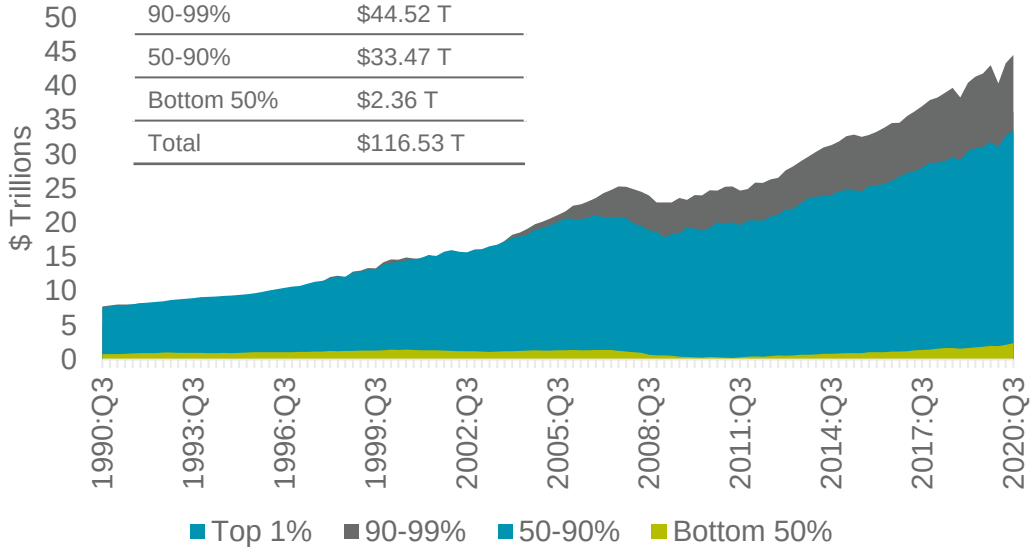
- With little ability to spend the income gains, households saved it.
- In January 2021 personal savings stood at $3.9 trillion (annual rate) compared to $1.3 trillion a year earlier.
- This suggests consumers have more than $2 trillion of excess savings (savings on top of the norm).

Source: U.S. Bureau of Economic Analysis

The Pump is Primed: Household Wealth at Record Highs

- Household wealth rose to a record high of $116.5 trillion in Q3 2020 thanks to soaring stocks, home values, and income.
- Middle- and high-income households have built up strong wealth and savings during the pandemic.
- Again, the stage is set for a strong consumer spending surge.

	2020Q3
Top 1%	$36.18 T
90-99%	$44.52 T
50-90%	$33.47 T
Bottom 50%	$2.36 T
Total	$116.53 T

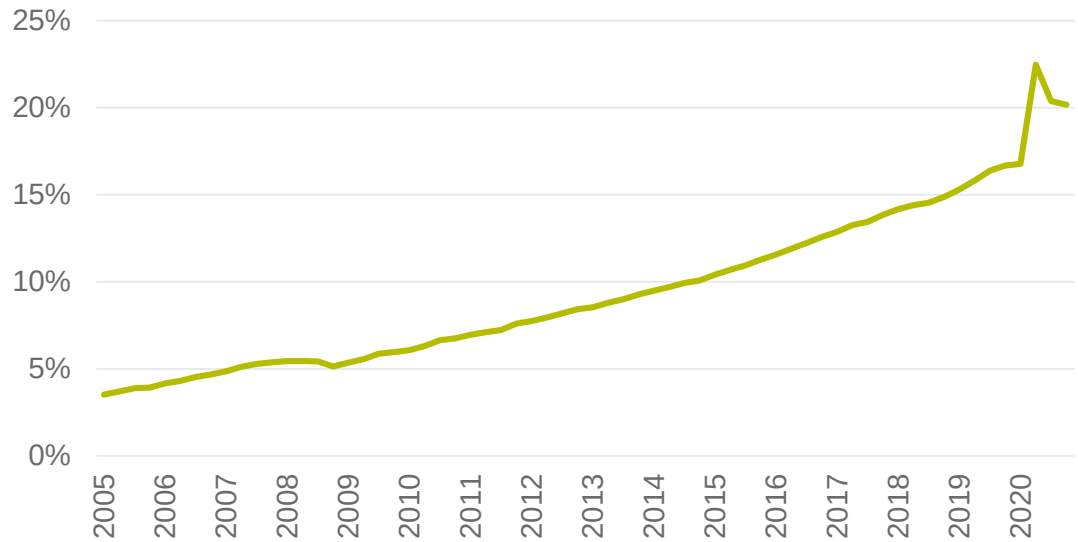


Source: Federal Reserve, Cushman & Wakefield Research

E-Commerce/Retail Mix Beginning to Normalize

Retail Gains Some Share Back As the Economy Reopens

Internet Sales as a Share of Core Retail Sales

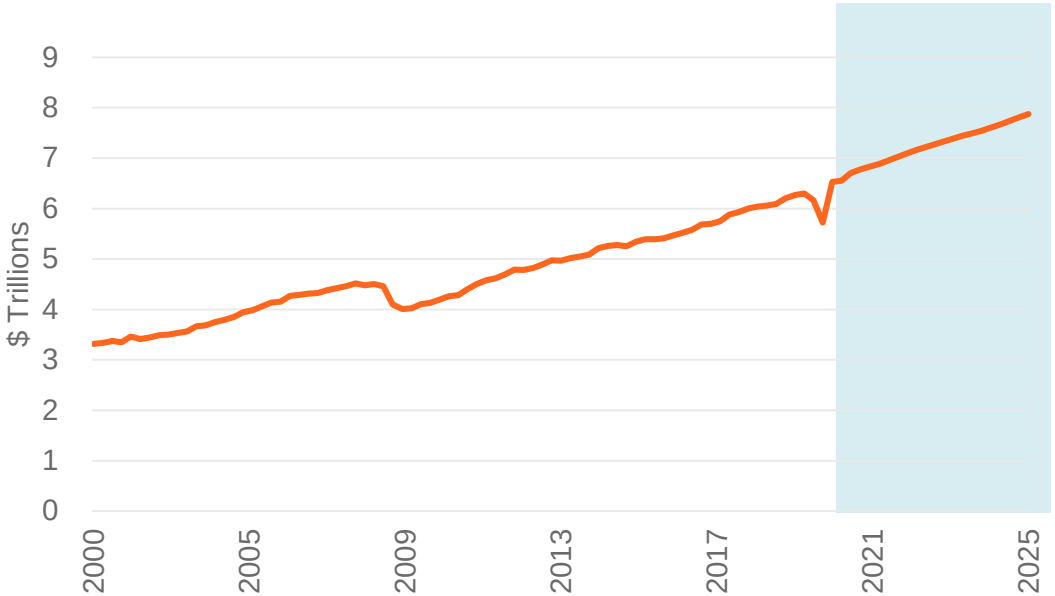


- Between Q4 2019 and Q2 2020, the digital share of core retail sales surged from 19% to 23%.
- Since Q2 2020, some of that market penetration has been given back.
- Overall, spending is at record levels.
- Look for more shopping, but slower internet growth as more people get immunized and begin to shop at brick-and-mortar locations.

Source: U.S. Bureau of Economic Analysis
Core Retail Sales = Total Retail Sales excluding Motor Vehicles and Parts, Gasoline and Food Service and Drinking Places

Outlook: A Golden Era for Certain Concepts

U.S. Retail Sales Forecast

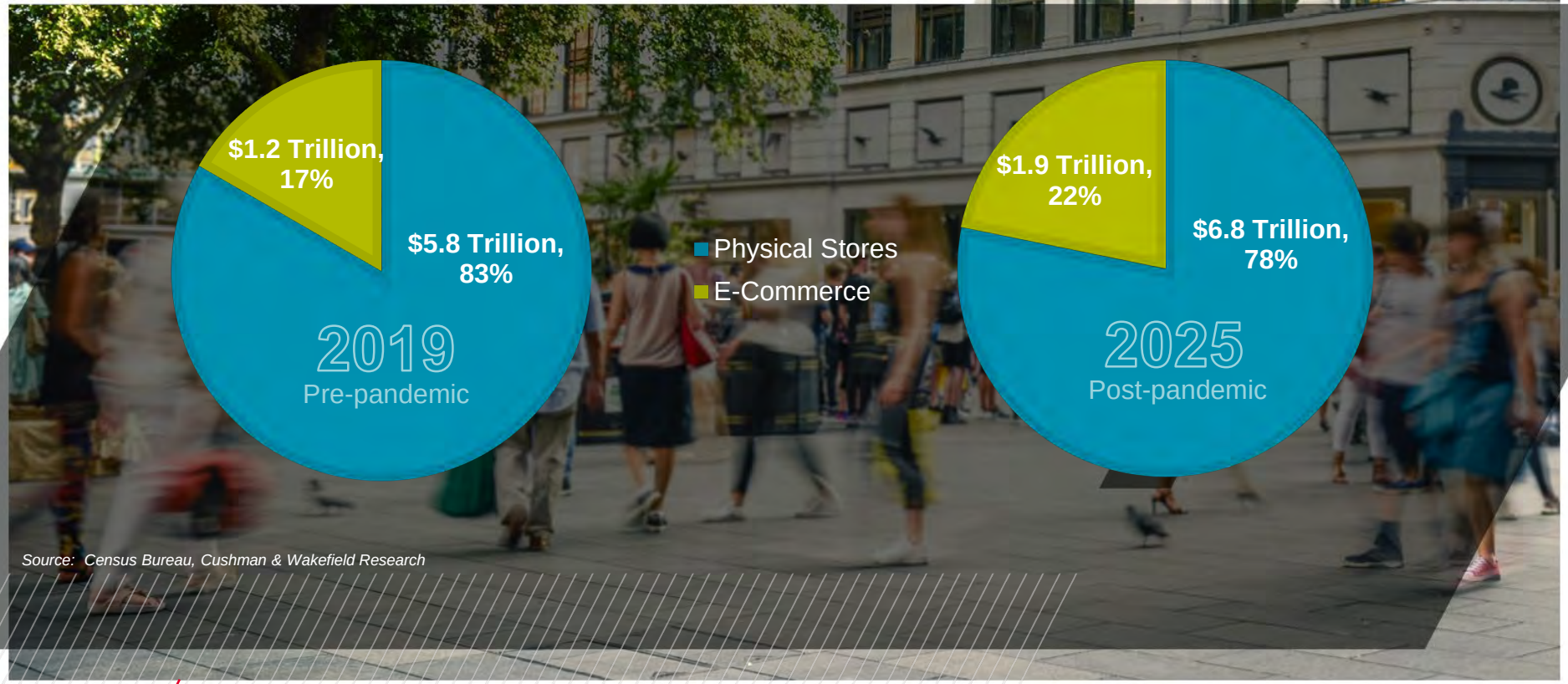


- Over the next five years, retail sales are forecast to grow at an average annual rate of 3.7% per year, almost identical to the five years that preceded the pandemic.
- Post-pandemic, consumers will be spending more than ever at bricks and mortar stores.

Source: U.S. Census Bureau, Moody's Analytics

Bricks & Mortar Still Dominates E-Commerce

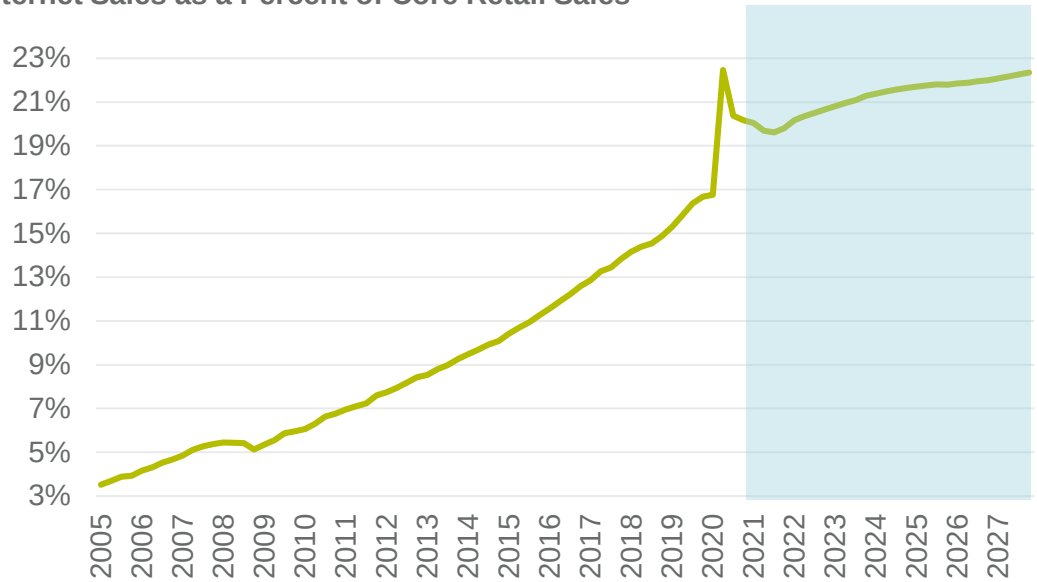
Percent of Total U.S. Retail Sales



Source: Census Bureau, Cushman & Wakefield Research

Retail Sales Forecast Internet Share

Internet Sales as a Percent of Core Retail Sales

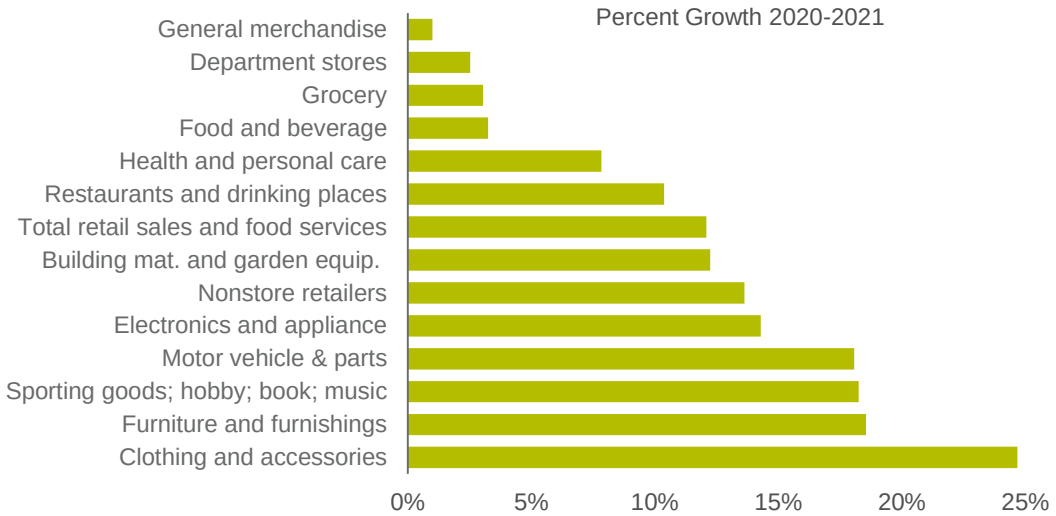


- The share of retail sales that takes place over the internet is projected to decline slightly in the near-term following the COVID-19 induced surge.
- Over the long run, the internet will continue to take a larger share of core sales, however, the increase in share is forecast to rise more slowly than in the last 10 years.
- This suggests that demand for retail space will increase over the next several years.

Source: U.S. Bureau of Economic Analysis, Moody's Analytics Forecast
Core Retail Sales = Total Retail Sales excluding Motor Vehicles and Parts, Gasoline and Food Service and Drinking Places

Some Retail Sectors Will Boom

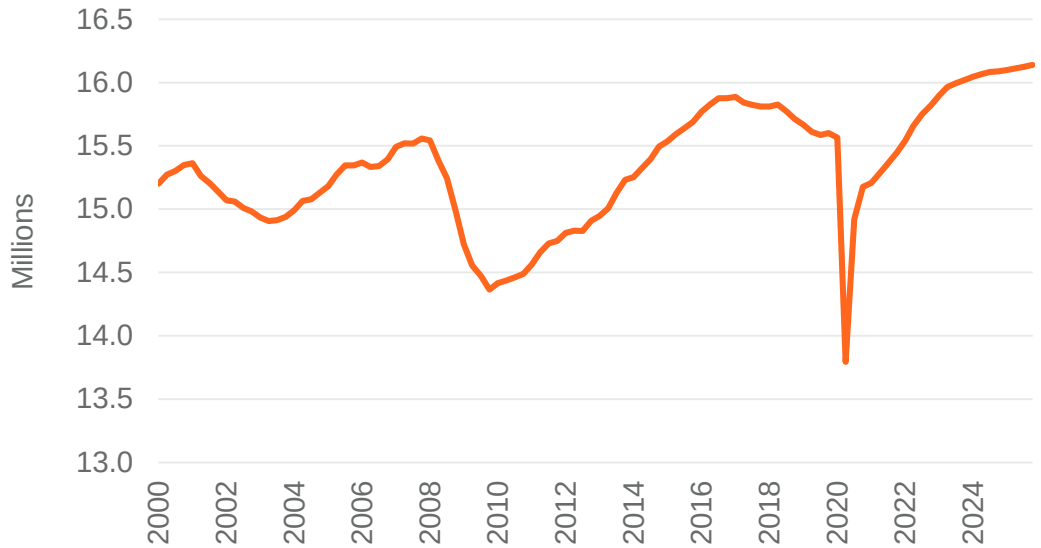
Retail Sales Forecast



- ↑ Thrift Stores
- ↑ Grocery (Smaller Format Concepts)
  - Discount Grocers
  - Ethnic Grocers
  - Organic Grocers
  - Upscale Grocers
- ↑ Fast Food
- ↑ Discounters
- ↑ Dollar Stores
- ↑ Pet Supplies
- ↑ Sporting Goods
- ↑ Clicks to Bricks
- ↑ Legal Cannabis
- ↑ Bank Branches

Source: Moody's Analytics

Retail Employment Forecast

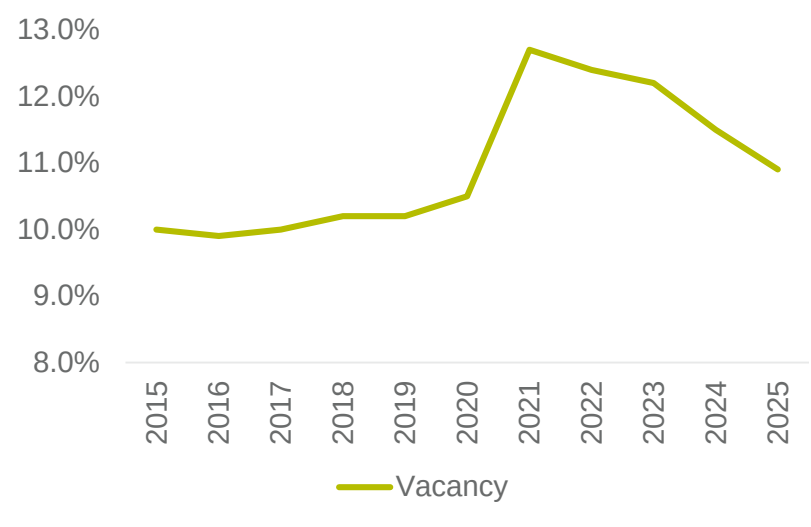


Source: U.S. Bureau of Labor Statistics

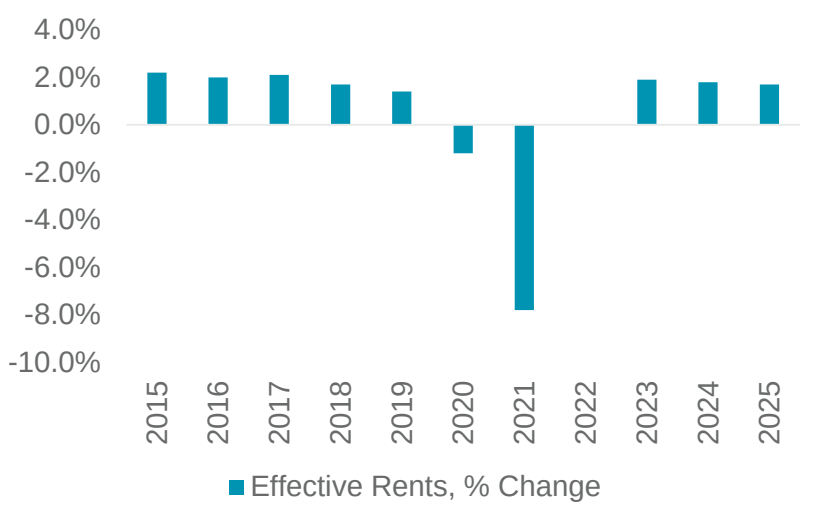
- After being on a downtrend since 2016, employment in the retail sector is projected to rise to new record levels over the next few years.
- Stronger consumer spending will drive retail business expansion and new concepts, creating more jobs and higher demand for retail space.

U.S. Retail Property Forecast

Vacancy Peaks in 2021



Rents Rise in 2023



Source: Reis, Cushman & Wakefield Research

Retail Effective Rent Forecast

	City	2021 Rent, % Chg	2022-2025, Avg. Annual % Chg.
1	Atlanta	-6.8%	1.5%
2	Austin	-10.3%	1.9%
3	Baltimore	-7.4%	1.6%
4	Birmingham	-6.8%	1.3%
5	Boston	-6.0%	1.5%
6	Buffalo	-6.0%	0.9%
7	Central NJ	-7.2%	1.4%
8	Charlotte	-7.0%	1.0%
9	Chicago	-6.8%	0.8%
10	Cincinnati	-7.2%	1.5%
11	Cleveland	-8.2%	1.3%
12	Colorado Springs	-9.9%	0.9%
13	Columbus	-7.7%	1.6%
14	Dallas	-6.5%	1.1%
15	Dayton	-6.1%	0.7%
16	Denver	-10.2%	1.8%
17	Detroit	-8.5%	1.1%
18	Fort Lauderdale	-8.3%	1.7%
19	Fort Worth	-11.5%	0.5%
20	Hartford	-7.7%	0.7%

	City	2021 Rent, % Chg	2022-2025, Avg. Annual % Chg.
21	Houston	-7.0%	2.0%
22	Indianapolis	-9.7%	0.9%
23	Jacksonville	-9.2%	2.0%
24	Kansas City	-5.0%	0.7%
25	Las Vegas	-12.5%	0.5%
26	Long Island	-5.6%	1.9%
27	Los Angeles	-8.6%	1.3%
28	Louisville	-2.6%	1.3%
29	Memphis	-7.0%	0.4%
30	Miami	-8.4%	2.2%
31	Milwaukee	-5.4%	1.4%
32	Minneapolis	-5.8%	1.3%
33	Nashville	-5.1%	2.2%
34	New Haven	-6.3%	1.1%
35	Norfolk	-9.1%	1.3%
36	Northern NJ	-8.2%	0.6%
37	Oakland-East Bay	-8.2%	1.5%
38	Oklahoma City	-5.9%	1.5%
39	Orange County	-8.0%	1.7%
40	Orlando	-10.1%	1.6%

	City	2021 Rent, % Chg	2022-2025, Avg. Annual % Chg.
41	Palm Beach	-10.6%	1.9%
42	Philadelphia	-7.1%	0.8%
43	Phoenix	-9.4%	1.4%
44	Pittsburgh	-4.7%	1.7%
45	Portland	-6.3%	0.9%
46	Raleigh-Durham	-7.4%	1.6%
47	Richmond	-9.6%	0.6%
48	Sacramento	-10.3%	1.2%
49	Salt Lake City	-8.4%	1.5%
50	San Antonio	-6.9%	1.5%
51	San Bernardino	-10.2%	1.3%
52	San Diego	-6.4%	1.4%
53	San Francisco	-6.8%	1.3%
54	San Jose	-8.9%	0.8%
55	Seattle	-7.0%	1.8%
56	St. Louis	-8.2%	1.4%
57	Suburban Maryland	-7.6%	1.7%
58	Suburban Virginia	-8.0%	2.0%
59	Tampa	-9.6%	1.2%
60	Tucson	-7.2%	1.2%

Source: Reis, Cushman & Wakefield Research; Updated 3-15-2021
Net effective rents are contract rents that factor in concessions

Investment Ideas 2021/22

- Amid an acceleration in structural change, retail can fit in a core, value-add or opportunistic portfolio—with a focus on “reason to be” and management capability to survive and thrive.
- With alternative sectors now in the mainstream, retail owners need to think about having the right mix of uses to drive footfall and asset value.
- For all assets, defining a “reason to be” for occupiers and users will be key—what do they add? What is the rental income they can realistically sustain?
- Cities will remain a magnet for growth, with agglomeration bringing innovation, clustering and green efficiencies. However, new winning cities will emerge, and all service providers must have a strategy to serve a more widely spread population.
- Repurposing existing retail assets is a major area of opportunity, including mixed-use and specific sector prospects.
- Demand for yield and term will bring greater opportunity for sale and leasebacks for buyers and sellers, notably for retail in the food and bulk goods sectors.
- More limited debt availability for retail presents opportunities for risk taking and structured finance.
- Platform potential including public to private, remains significant, particularly in well-focused vehicles where management can adapt to the new retail environment.
- A growing challenge in all sectors will be improving an asset’s ESG profile—without which it risks becoming unusable and irrelevant in the global market. Indeed, a new appraisal of performance may be needed to include non-financial targets.

CONTACTS

Barrie Scardina
Head of Retail, Americas
barrie.scardina@cushwake.com

Ken McCarthy
Economist / Retail Research Lead
ken.mccarthy@cushwake.com

Kevin Thorpe
Global Chief Economist
kevin.thorpe@cushwake.com

U.S. Retail Market Outlook

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2020, the firm had revenue of $7.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

DISCLAIMER: Cushman & Wakefield and our staff are not authorized or qualified to guide or influence you in the preparation of your own business continuity or preparations plans from a health and public policy perspective. While we are making efforts to ensure we are providing an up-to-date list of publicly available resources, all details on COVID-19, as well as health, economic and public policy implications, should be addressed with the advice of an independent specialist.

Copyright © 2021 Cushman & Wakefield. All rights reserved.