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## **Is eCommerce killing brick-and-mortar retail? Change creating opportunity for the AEC industry - by Rainer Muhlbauer**

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The entire retail industry is debating whether brick-and-mortar retail is slowly becoming extinct. Developers, brokers, retail landlords, and the AEC industry that has been dependent on that market are struggling to answer that question. There is a chronic belief that retail stores, malls and shopping centers are dying. Depending on what you see and hear, the outlook can be bleak. Studies by CBRE Research reveal that only 4% of general merchandise, apparel and accessories, furniture and other sales in the U.S. go to pure E-tailers, but eCommerce sales are increasing at a rate of approximately 30% annually. The two largest sectors of online shopping are clothing (22%) and furniture (33%). Online sales in the grocery sector is also growing quickly across all generations, including baby boomers. Big box store and department store closings – such as Sears, Kmart, hhgregg and others – have created approximately 95.3 million s/f of vacant retail space. These closings are highly publicized in the industry and the media in general adding to the belief that retail stores are on life support. It all sounds pretty grim.

Without some context to weigh these gloomy observations against, the statistics will continue to create misconceptions. With that in mind, consider some other perspectives as a way of separating sentiment from reality. Even though eCommerce is growing rapidly, most industry experts believe it will level off, and may even decline as retail stores redefine themselves. eCommerce has clearly led to some downsizing of stores, but these are most commonly in oversaturated areas. A significant percentage of online sales are procured from brick-and-mortar stores rather than warehouses perpetuating the need for stores. The “A” shopping centers will continue to be a major draw, but “B” and “C” centers will struggle or fail. CBRE studies indicate that big box retailers are currently looking for 40 million square feet of space. Prime retail locations are still in demand. There are 86 million millennials that are driving the demand for omni-channel retail. They want to buy products in any way that they feel convenient at the moment, whether online or in stores, and whether delivered or picked up on the spot.

So, are retail stores and centers dying? I don't believe so. But, there is no doubt retail is changing, and that creates opportunity for the AEC industry. There is already a noticeable shift toward emphasizing brand, culture and lifestyle rather than the volume of product in a store, which means

that many stores will need to be redesigned and “refreshed.” Savvy retailers are adjusting to the demand for omni-channel retail. Brands such as Home Depot and Best Buy have returned strongly from the edge of the abyss. Warehouse, fulfillment and distribution centers have separated themselves from the industrial market and now need to be considered part of retail fabric, creating a demand for design and construction services. The emphasis on last mile delivery has placed an increased demand on stores to process, package and ship items locally, perhaps increasing the need for back-of-house space. Discount and value retailers stormed the market during the last recession and their popularity has not subsided as the economy has recovered. Shoppers arrive searching for the daily values, attracted by the “thrill of the hunt.” They will continue to build and absorb vacant spaces. Vacant spaces will also tempt retailers with higher bargaining power. Shopping centers are already shifting from purely retail tenants to entertainment, restaurants, art and culture, and recreational spaces. The demand is now is toward social interaction and engaging experiences.

Yes, there are some bleak forecasts in the current market statistics, but there is much less emphasis on the significant efforts that retailers are planning, testing and implementing to adapt to the new demands of the consumer. Brands such as H&M, Zara, Forever 21 that have developed the ability to recognize trends, respond quickly, and bring products to the market at an affordable price are thriving. Discount and value brands such as Dollar General and Family Dollar continue to grow aggressively, helping to drive retail absorption. Repurposing shopping centers to become mixed-use environments will create new opportunities. The myth that online retail is more profitable than bricks-and-mortar store sales is belied by the fact that billions of dollars are being lost annually by online retailers through returns sent to landfills, let alone the cost of warehousing, packaging and shipping. In fact, only a small percentage of online retailers are currently operating profitably. Prime real estate will always be in demand, which will continue to drive the need for AEC services, whether for relocations, new tenants, or repurposing of uses.

So, is brick-and-mortar retail dead? I don't believe so, but it is changing.

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