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Consumer retail good - Brick & mortar continues to decline - Daniel Calano

December 13, 2019 - Appraisal & Consulting

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Our real estate office has been in Harvard Sq. for over 20 years. Over that time, there was not a lot of physical building change, often due to a general respect for small local shops catering to Harvard professors, students and neighbors. Now, and over the last few years, the square is full of change with closed stores and gutted buildings, making way for new national retail shops looking to make their mark. It is a metaphor for retail change, and I look around the square wondering what will survive and what will not.

Jump forward to the broader concept of retail in the future. Just the other day on Black Friday, there was \$7.4 billion in retail sales over the Internet, up over 20%, according to Adobe Analytics. In true millennial fashion, more than half of these were done over a smart phone. It looks like the season will be good overall, and consumer confidence is strong. But, as we all know, the venues for consumer buying have changed, in many ways due to demographics and technology, with impacts on real estate of course.

A few years back, I wrote an NEREJ story about the looming difficulty of retail in the face of online shopping. I focused on the shopping mall, which since the 1960s housed much of the retail in America. I didn't think I was particularly prescient or clever, just that it was pretty obvious. Malls had started to close across America with the percentage of online purchases increasing, and in store purchases decreasing. Mall owners and developers clearly saw the problem, and some moved forward by modifying their properties to add more entertainment, food, memorable experiences. I thought, perhaps I was wrong about the mall demise, and resilient developers would make changes necessary to keep consumption patterns the same or at least similar.

The news this week confirmed that online shopping is still a movement, a trend that is not the friend of brick and mortar retail. Stores, often key stores or anchors in malls, were closing.

A few major shuttered examples included Chico's, 250 stores; Gap, 230 stores; Walgreens, 200

stores; Sears, emerging from bankruptcy closing new rounds of stores; Olympia Sports, 76 stores; Bed and Bath, 60 stores; Pier 1 Imports, 57 stores; Office Depot and Office Max, 50 stores; Abercrombie & Fitch, J.C. Penny, Barnes, Macys, J. Crew, Kohls, Nordstrom, Lord & Taylor, even the trusted workhorse Walmart, all closing stores across the country.

Only a few were opening them in better locations. In total, more than 9,300 stores were or are closing in 2019, as the retail apocalypse continued. Clearly, for retail real estate, the times, they are a'changing.

An excellent, year long research report by Deloitte recently summarizes and analyzes the data they uncovered. In general, the report says that the consumer is changing, but the basics of consumption, consumer confidence, and general economic growth are still positive. They conclude that "consumer fundamentals have not changed much, but to the extent they are changing it is because of the environment around them changing through economic constraints and new competitive options." As the prime example, millennial consumers typically have less time, less discretionary income, and less interest in purchasing material goods. The other largest cohort, baby boomers, may have more disposable income but less interest in consuming in general. They can be found "Marie Kondoing" their houses, preparing for downsize.

One could go on and on about the demographics, income, diverse interests and so on, but the fact is many old ways of merchandising will continue to change, specifically large brick and mortar malls. As noted, some will still flourish because they are well located, offer a shopping experience that is exciting and entertaining, and include shops that simply cannot be easily duplicated within the online channel. People will continue to buy in our strong economy; growth will occur as does population; market will be improved through immigration growth as well. Millennials will prefer experience over property, and to the extent brick and mortar can deliver this, they will come. Otherwise, you can find them trekking through Europe or relaxing on the beach, somewhere exotic, researching, analyzing and purchasing as they swipe through their smart phone.

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