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Retail property continues its strong performance as we enter 2022 - by David De Lise

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Despite the reported demise of retail properties, not only is the retail industry enjoying a bit of a renaissance, but operating fundamentals are considerably stronger than a year ago, and in many cases, several operating fundamentals and performance metrics are stronger now than pre-pandemic!

As you might expect, the stay-at-home/work-from-home orders created incredible demand for on-line shopping for everything from essentials like food and clothes to toys, games, fitness equipment, office furniture (for our new work-from-home offices), enlarged monitors, laptops, i-pads, upgraded mobile devices, adult beverages (lots of those), etc. The pandemic certainly accelerated the trajectory of on-line, or e-sales, performance. The acceleration of on-line shopping had already started taking shape long before the pandemic arrived in the U.S. In fact, industry analytics have clearly shown that during the pandemic, the dollar amounts consumers spent shopping online was almost equal to the amount consumers spent in stores. In December 2021, with so many retail establishments reopened and bustling with business, the growth of online revenue is actually slowing down.

In fact, according to industry-leading analytics experts, The NPD Group, physical store sales accounted for 64% of all retail sales in the month of September 2021. Consumers have returned to physical stores, with pent up demand for the in-store, in-person experiences taken away by the pandemic's effects and concerns. Further, NPD reports that during the first year of the pandemic, from April 2020 through March 2021, year-over-year on-line sales growth exceeded 40% every month. Since that time however, e-commerce revenue growth has hovered below 10%.

Retailers had been busy right-sizing their store formats even before the effects of the pandemic truly took shape. Retailers were more successful than others pivoting from a strictly physical store presence, to implementing an aggressive omni-channel retail/experiential concept. As Steve Miller, SVP of strategy, e-commerce and analytics at Dick's Sporting Goods suggested at Adweek's Commerce Week, "The future of retail is experiential". It is that mindset, and outside the proverbial (big) box thinking which Dick's has embraced, making huge investments in their in-store experiences. Their 'House of Sport' concept includes 100,000 s/f stores with a variety of playing fields, featuring unique consumer attractions and great experiences. The future of retail commerce will also heavily lean into strategic partnerships and alliances to expand both brands. For instance, the partnership between Dick's and NIKE will provide shoppers the opportunity to connect their loyalty memberships across each brand. Once there, consumers can shop for an expanded selection of NIKE products, receive invites for special in-store events, and access new experiences and relevant content.

Dick's Sporting Goods isn't the only large retailer broadening their retail concepts to attract and expand their consumer bases. These sophisticated retailers are taking a very methodical, measured approach to store locations. They are no longer opening stores on every street corner or in every enclosed mall in the U.S. Rather, their current approach is to create experimental and strategic in-store experiences which will attract and retain consumers. They are not solely thinking about driving physical store revenue in the short term. Instead, they are laser-focused on building the

foundation to create future loyalists of all ages through experiential offerings. The retailers are more intent on expanding their presence and revenue in existing markets by capturing or converting new consumers to their brand and lifestyle.

The strategies and initiatives undertaken by these companies, and their ability to adapt to evolving consumer trends seem to be working, too. In fact, retail and food service sales (excluding automobile/truck sales, vehicle parts and gas) actually rose 16.5% in the first 10 months of 2021, year over year, according to an advanced estimate from the U.S. Census bureau. Several retailers have introduced or are about to roll out new and expanded concepts during the coming months. A few of these concepts include: Public Lands (Dick's Sporting Goods), House of Sport (another Dick's Sporting Goods concept), Amazon Fresh (Amazon's portfolio of offline grocery stores), IKEA Planning Studio (IKEA's design specialists assisting consumers with design, ordering, etc.) and Popshelf (Dollar General's concept within a store) featuring refreshed home décor, party goods and seasonal items. TJX has enhanced their consumer offerings with their introduction of new-to-market concepts such as Sierra, HomeSense and Nordstrom Local, which offers pickup and return of online orders, as well as providing alterations and consumer advice.

It is no coincidence that these brands and concepts feature a few very prominent, very noticeable themes, strong credit-worthy tenants with impressive balance sheets and superior access to expanded resources.

Demand for well-located, strong-performing retail assets has gained considerable momentum over the past several months as well. Through the end of September 2021, the strength and performance of the retail sector was noteworthy and quite impressive. Newly released data points suggest that retail demand through October remained impressive, and suggests "sustained positive economic momentum" for the sector. A senior executive at a large commercial services firm reports, "retail sales are way up, the strongest on record". Even if we account for inflation, core retail sales revenue increased by an impressive amount as mentioned previously. In fact, retail sales have expanded by almost 21% from pre-pandemic levels! It has been declared that foot traffic to physical retail stores has "fully returned" to pre-pandemic levels. Several noteworthy concepts are enjoying inspired brand revitalization, stemming from the retailers' renewed commitment to provide consumers with a truly intuitive omnichannel experience and demonstrating the future of commerce will most definitely center around creating unique consumer experiences.

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