

US RETAIL RESEARCH

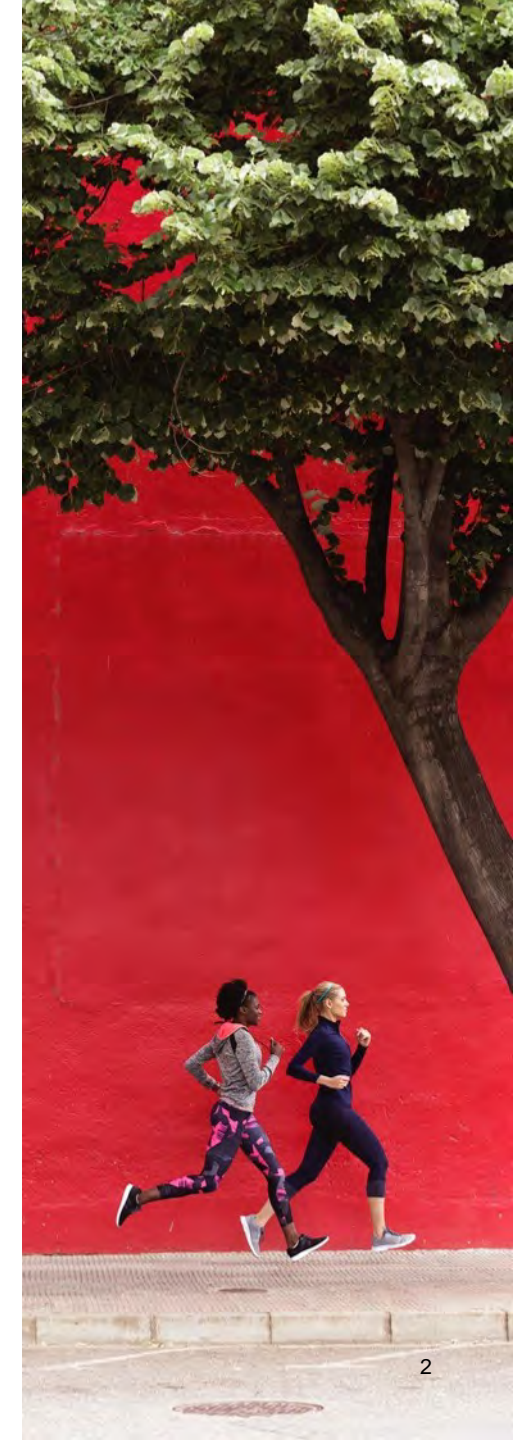
POST COVID-19

MARTA VILLA, JLL FOR DOWNTOWN NEW JERSEY FORUM 4-16-21



Cyclical factors

- Consumer spending has returned to pre- COVID levels but many retail categories have not recovered
- For full-service dining, entertainment and fitness, relief will not come until 100% capacity is allowed & patrons feel safe
- Urban retail will suffer more than suburban retail nodes until daytime office workers and tourists return.

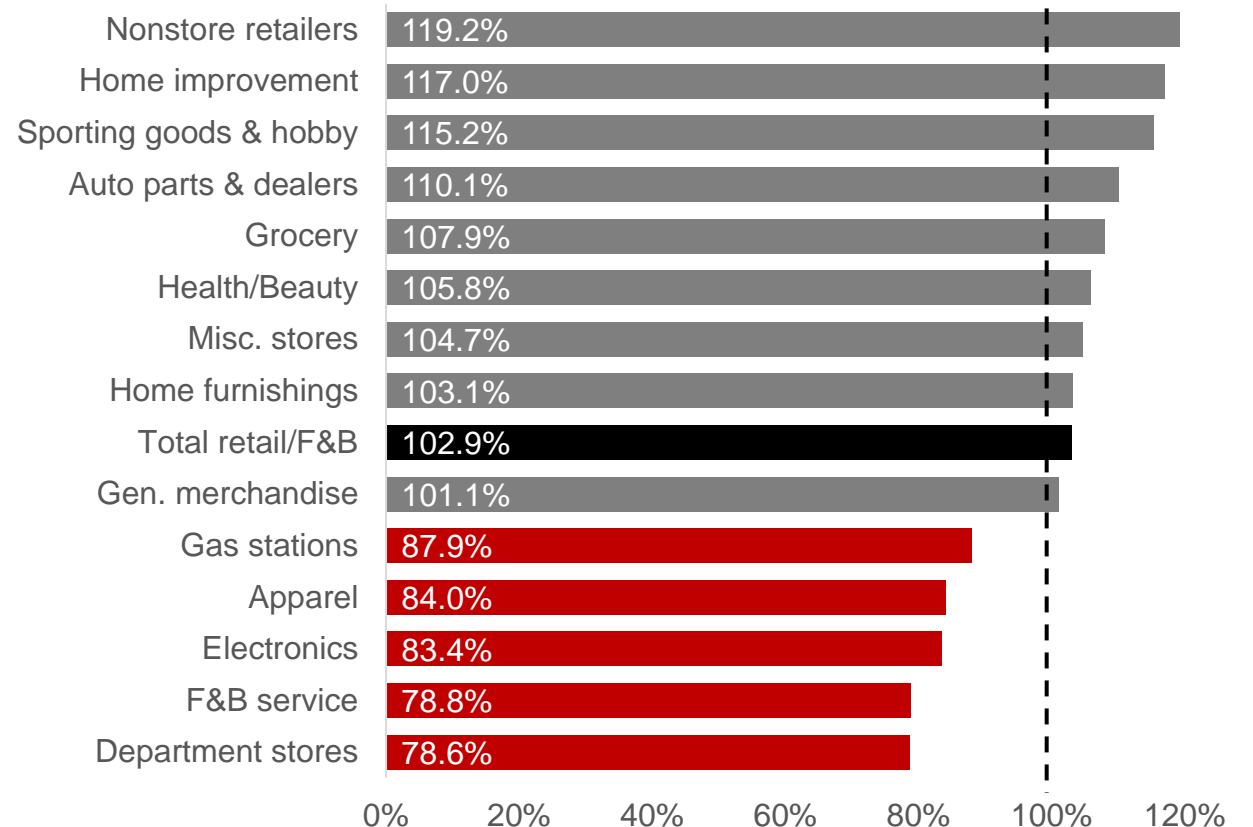


Retail sales are back to pre-COVID levels, but that spending is not being equally distributed



- Despite the steep decline in spending earlier in 2020, spending has eclipsed last year-levels.
- While spending is up, not all retail sectors are sharing those sales. Mass merchandisers are reporting some of the strongest sales in history, while apparel and casual dining brands struggle.

December 2020 sales as % of December 2019 sales



Source: JLL Research, US Census

Value and home improvement and home décor among healthiest retailers



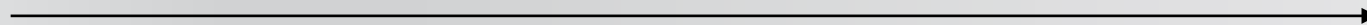
Mass merchandise	Grocery	Home improvement	Home décor & furnishings	Pharmacies & drugstores	Cosmetics & beauty	Consumer electronics
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Positive



Dining	Fitness	Apparel & accessories	Entertainment & theaters	Department stores
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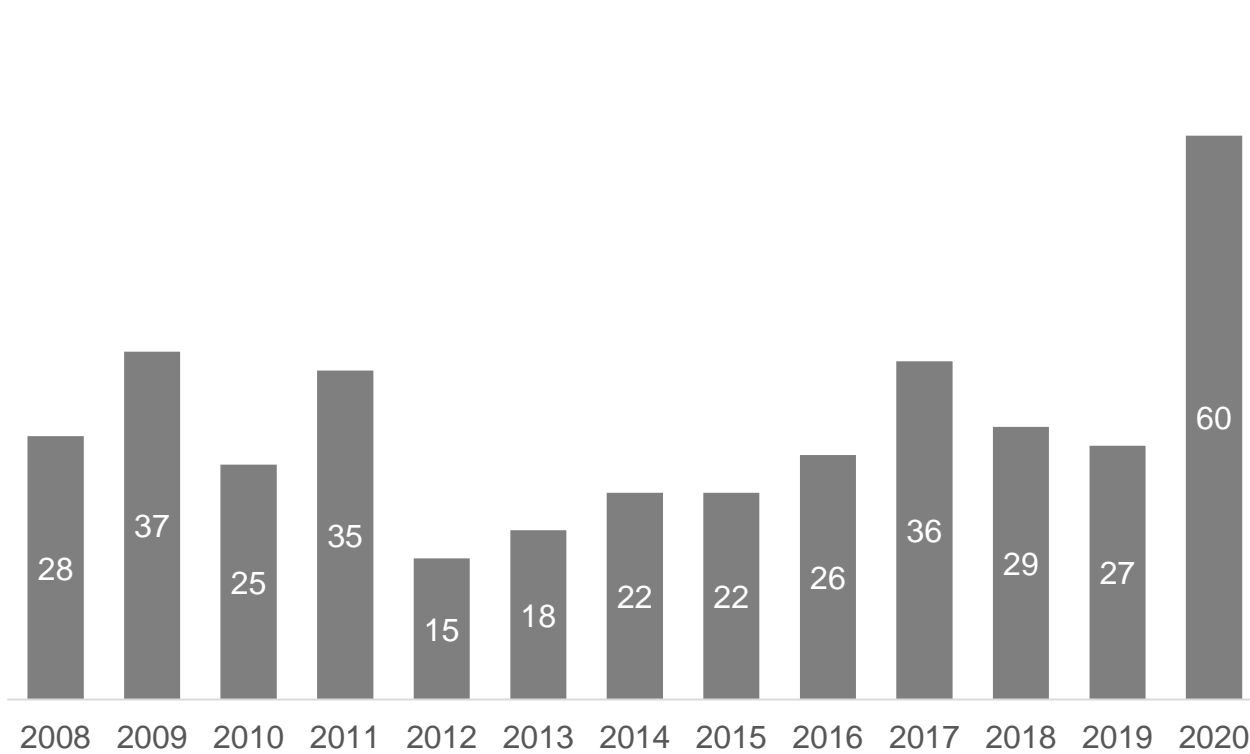
Negative



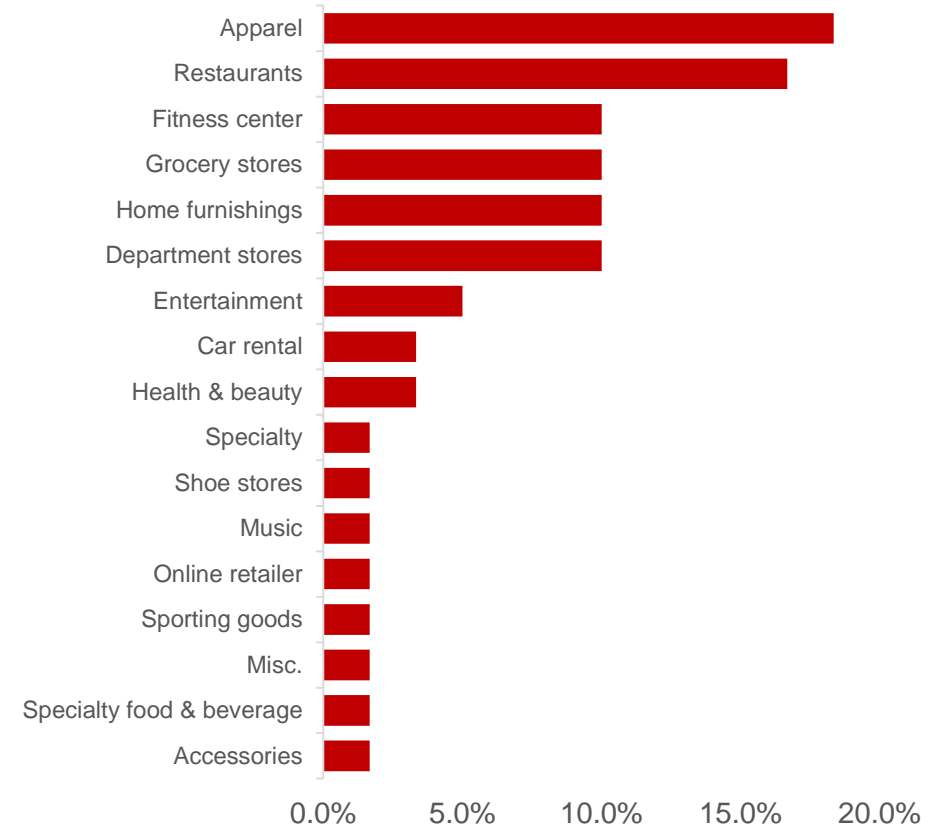
Many retailers struggling with sales prior to the pandemic were unable to continue business during shutdowns



of major retailer bankruptcies



% of major 2020 bankruptcies



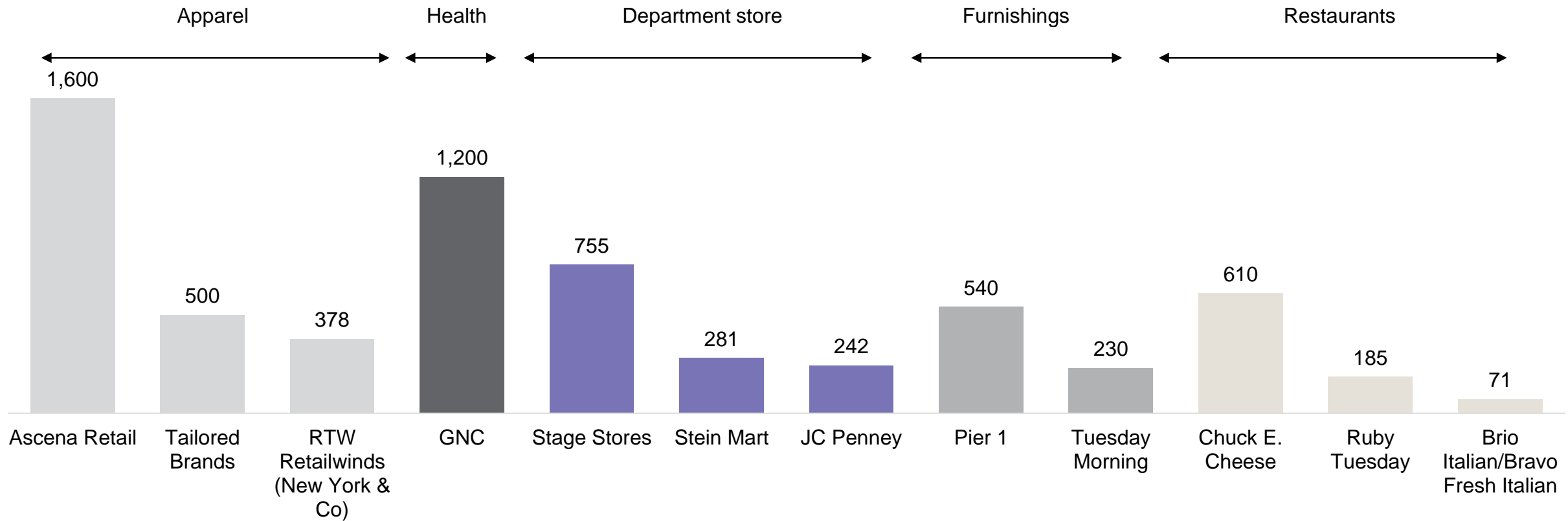
Source: JLL Research, Creditintell, PNC



Bankruptcies resulted in 100s of announced store closures



Select closures by retail sector



Source: JLL Research, CreditIntell, PNC

12,200 Store
Closures last year

The logo for Lord & Taylor, featuring the brand name in a black, elegant cursive script.

-38

The logo for Brooks Brothers, featuring a small crest above the brand name written in a black, elegant cursive script.

-51

The logo for 24 Hour Fitness, featuring the number '24' in a red circle with 'HOUR' below it, followed by the word 'FITNESS' in blue, italicized, sans-serif capital letters.

-130

The logo for JCPenney, featuring the brand name in a red, lowercase, sans-serif font, with the 'j' and 'c' on a white background and 'penney' on a red background.

-168





2021 Anticipated 10,000 closures



60 of 300



-5



-140



-45

Downtown/Urban vs. Suburban Shopping Environs

- **Shopper comfort with more open areas has reduced demand for enclosed shopping centers and urban retail.**
- **Suburban shopping centers have seen the most foot traffic return since the height of stay-at-home orders but still have 38% less visitor traffic as of January 2021 compared to the same period last year.**
- **In urban centers, corridors located next to residential neighborhoods are faring slightly better: traffic is down 54% compared to corridors that attract more tourists or that are in office submarkets where traffic is down 63% since January 2020.**
- **Demand will eventually return for central business district retail, but flexible work-from-home policies through 2021 will mean few daytime workers to spend at retailers that survive office density.**



Midtown NYC store closure



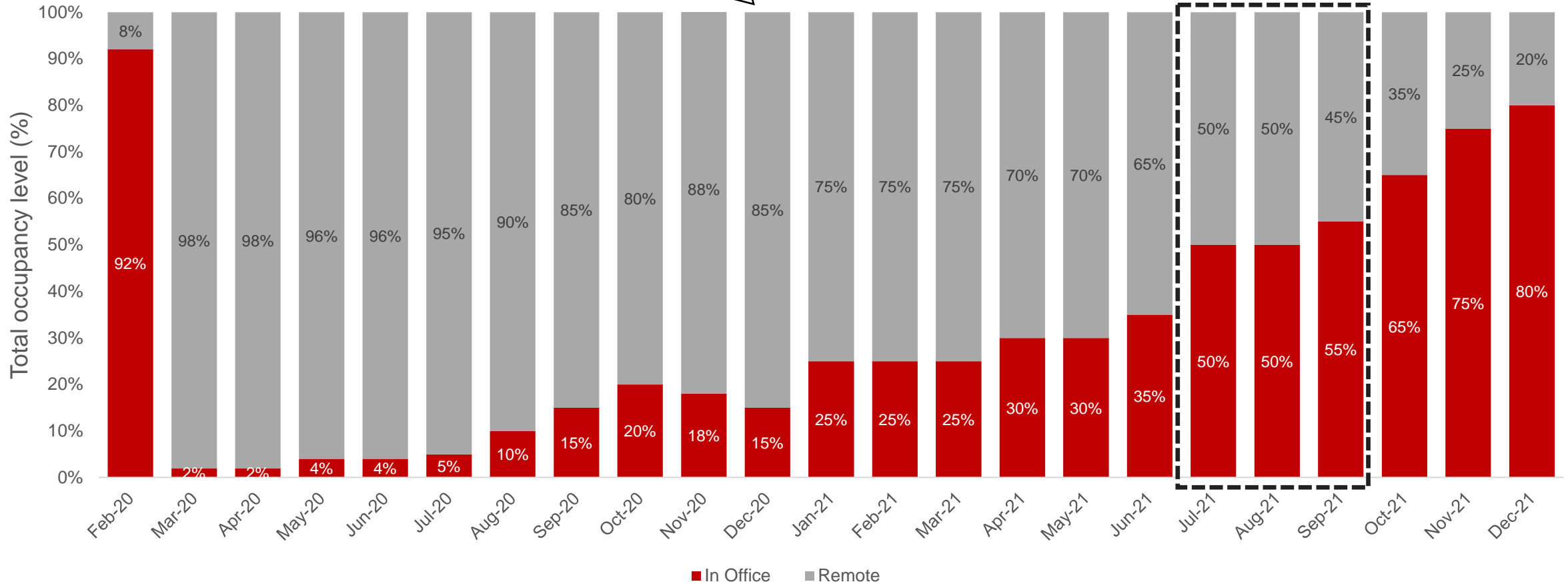
Observed and projected U.S. office re-entry timeline



Back to work

December 14, 2020:
first COVID-19 vaccine
administered in the U.S.

Peak probability of “functional
end to COVID-19 pandemic in
U.S.,” per McKinsey & Co.



Source: JLL Strategic Consulting Group survey of Fortune 500 office users, WSJ

Suburban and urban retail will recover at different paces



Present

Near future

**Longer term
(widespread vaccine)**

Late Winter/Spring

Fall / Early Winter

SUBURBAN TIMELINE

- Office workers at home in the suburbs.
- Shoppers feel more comfortable in open spaces.
- Open air centers see strong foot traffic and spending

- Retailer demand for suburban retail space grows.

- Suburban areas remain an ideal location for retailers even as the demand for urban living returns.

CBD / URBAN TIMELINE

- Office workers not in their urban offices.
- CBD retail struggles without daytime population.
- Without tourists, prime urban retail corridors suffer too.







- Retailer demand for new space returns slowly as people return to the office.
- Prime urban retail corridors near residential neighborhoods will see demand return sooner than those near CBDs.

- Workers return to offices running at full capacity and CBD retail recovers.
- Prime urban retail corridors bounce back as domestic and international tourists return.

Q4 2020 US retail market fundamentals



Fundamentals

 <p>Inventory 11,625 MSF</p>	 <p>Total Vacancy 5.0%</p>
 <p>Q4 2020 Net Absorption 3.0 MSF</p>	 <p>Average Market Rent (psf) \$21.46</p>
 <p>Under Construction 48.4 MSF</p>	 <p>Q4 2020 Deliveries 8.7 MSF</p>

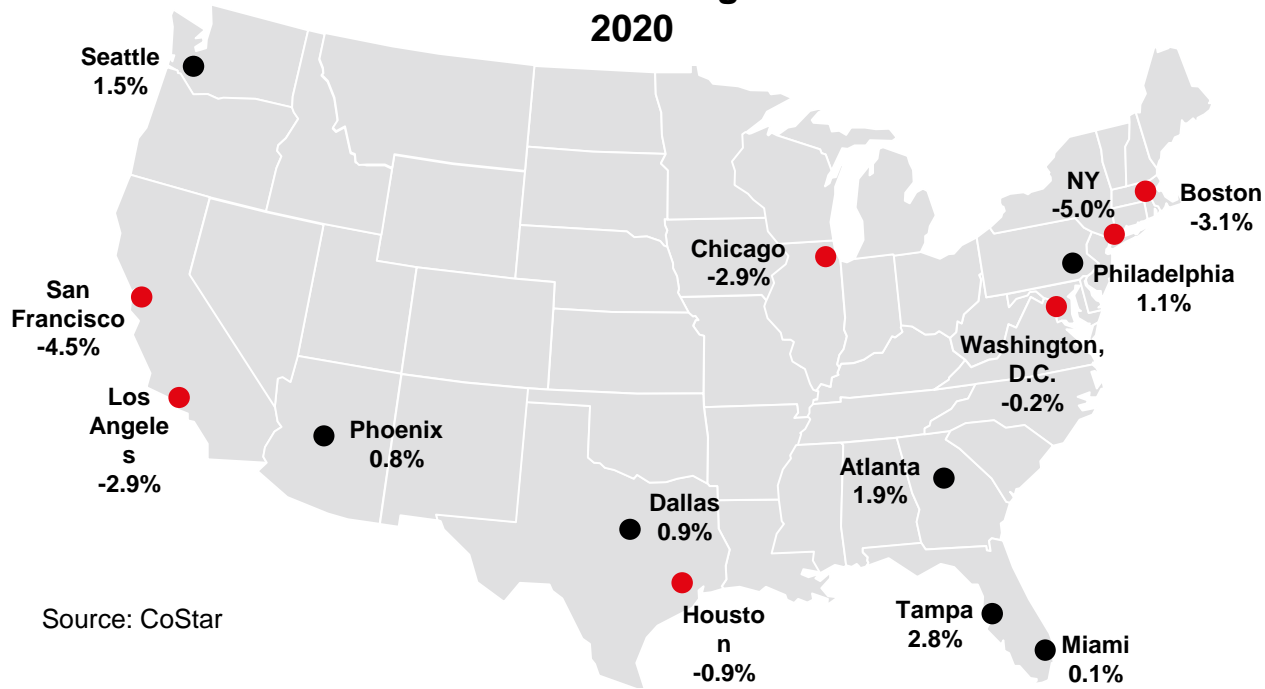


Rent growth is stronger in the Sunbelt



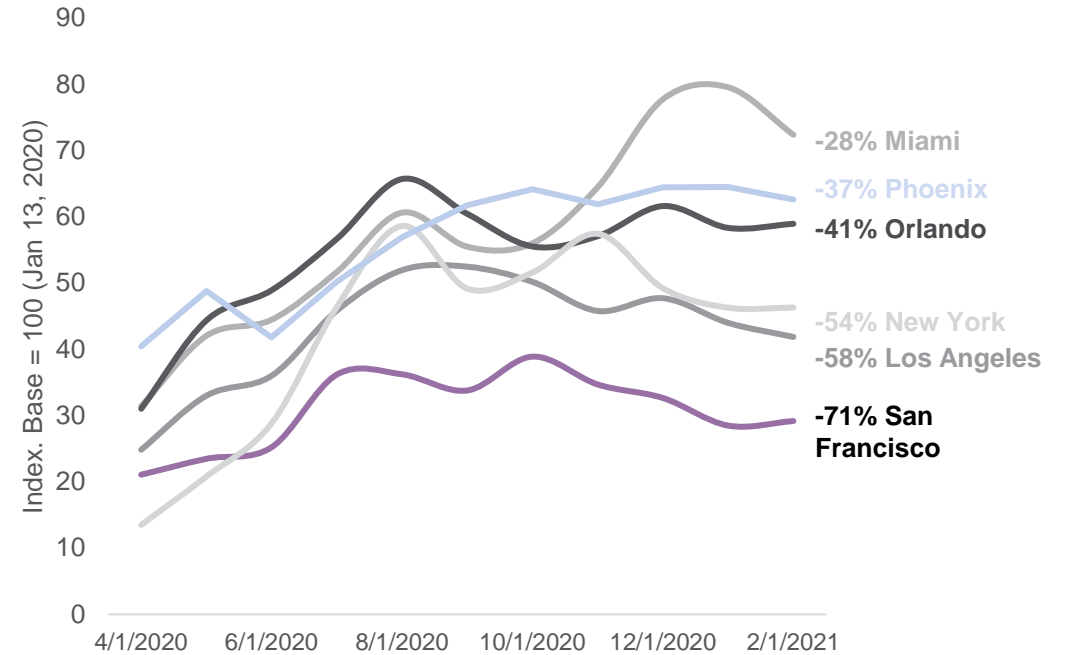
Macro look at overall growth

Annual rent change – Q4 2020



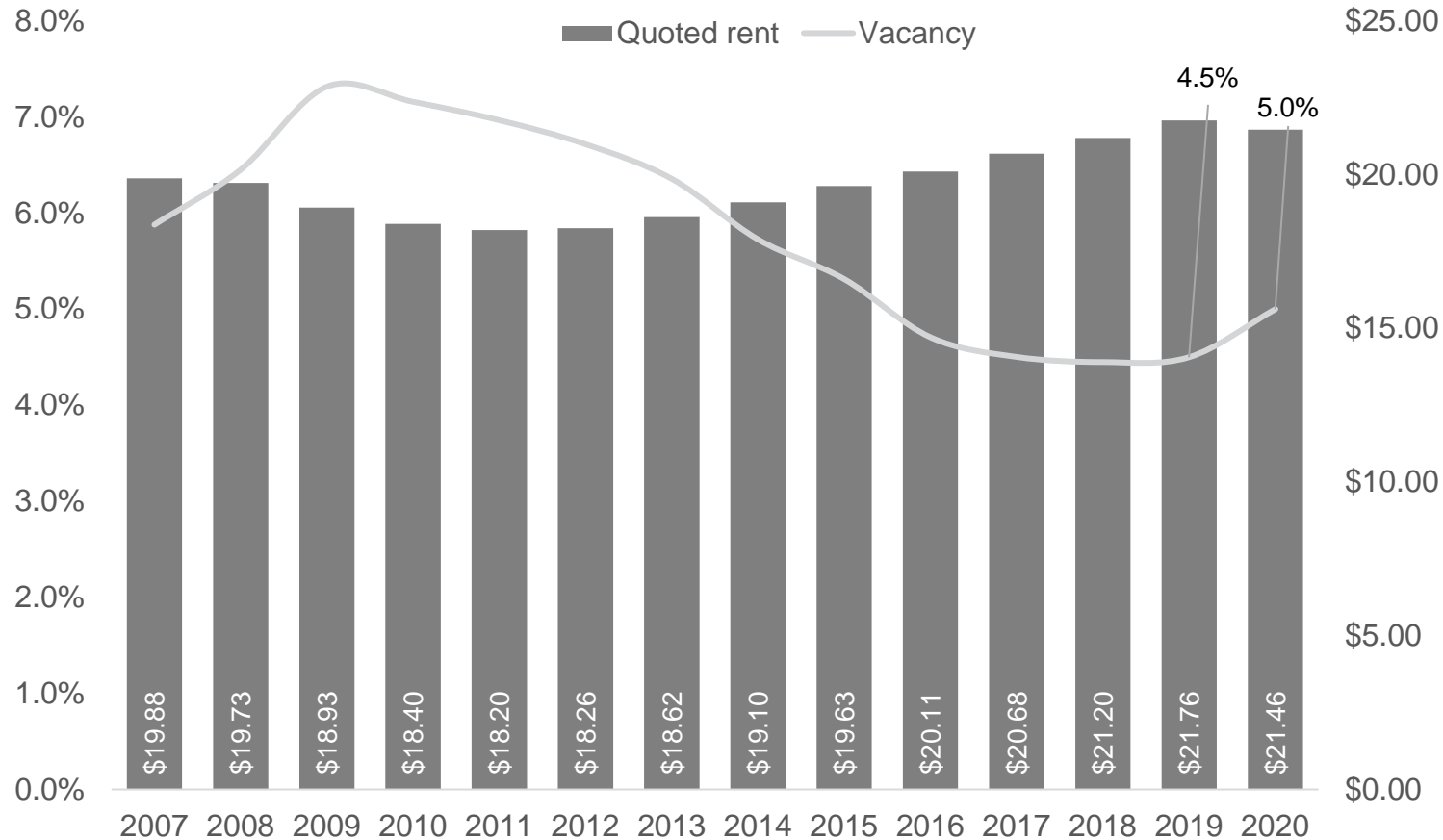
Source: CoStar

Post-COVID change in transit mobility



Source: Apple Mobility

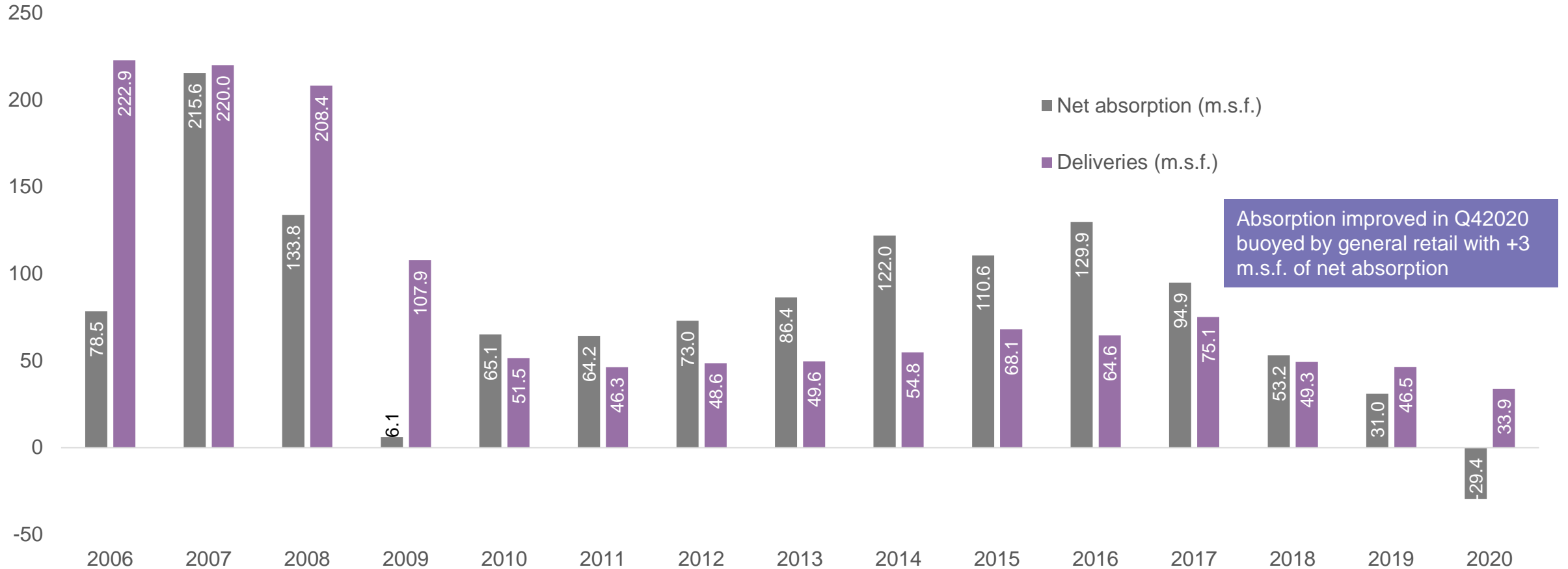
COVID continues to push rents down and vacancy up; trends that will continue in 2021



- Vacancy continued to rise in Q4 as more retailers vacated space – up to 5% at the end of the year.
- As bankruptcies and portfolio adjustments continue, expect vacancy rates to rise.
- Rents are down 1.4% from 2019 and are expected to drop further in the first half of 2021.
- Deliveries have dropped to a new low since the last recession which has helped vacancy rates from rising sharply.

Source: JLL Research, CoStar

Retail net absorption was negative 30 m.s.f. for the year but did improve in the fourth quarter

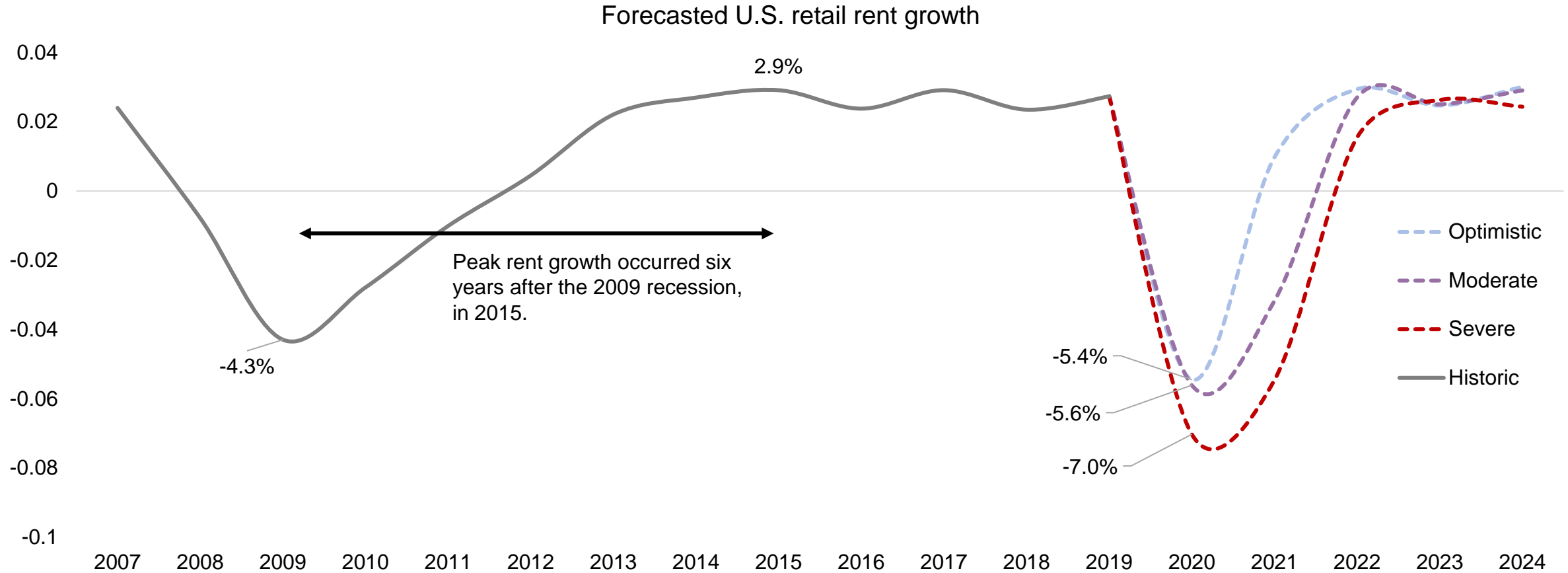


Source: JLL Research, CoStar

Retail rent growth forecasted to rebound by 2022



Landlords holding out

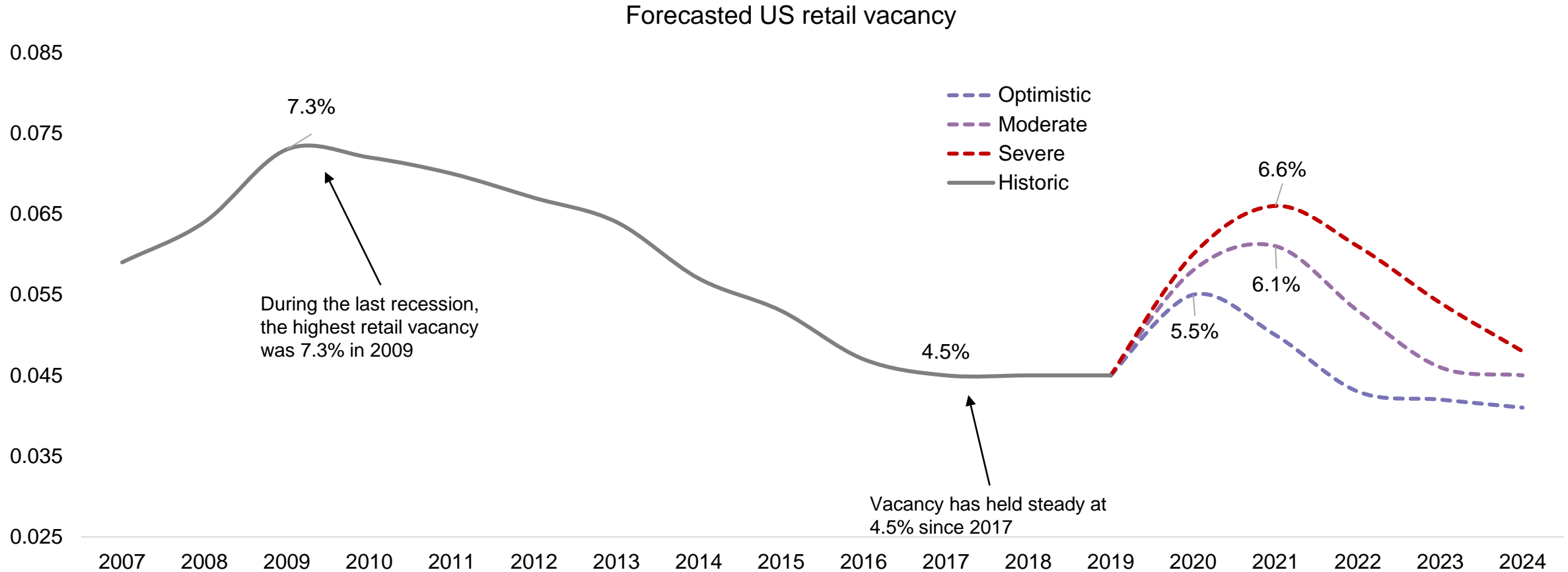


Source: JLL Research

Vacancy forecasted to rise through 2021



Not sure re-set has occurred



Source: JLL Research

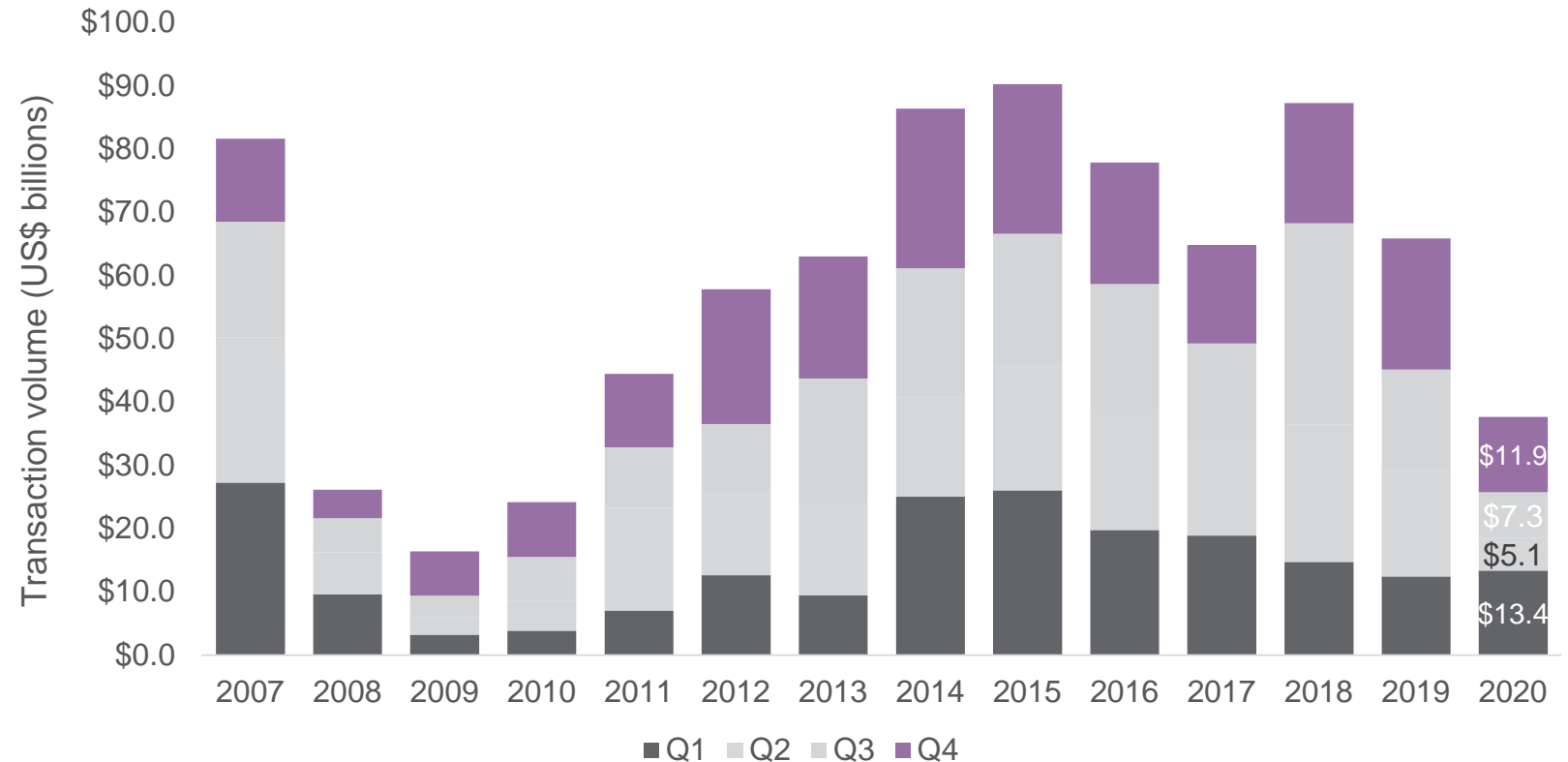
Retail investment declined 42.8% in 2020



Lending available again, transactions happening

- Investor activity is focused on assets anchored by essential retailers like grocery stores and mass merchandisers.
- Private investors comprised nearly two-thirds of buyers and more than half of sellers in 2020.

Historic retail transaction volume



Source: JLL Research, Real Capital Analytics (Transactions larger than \$5.0m)

Transaction types 2021

*Big box re-tenanting,
dividing, controlling massive
amounts of SF*

Trends in transactions

Disposition of excess or underperforming real estate (banks, childcare, eateries, apparel locations)

Downsizing of various stores – reducing SF footprint for better economics and store flow

Restructuring – negotiating better rent structure or Tenant rights

Acquisition of locations for banks, medical, drive thru food, childcare



The future of retail

- Retail will have...
 - less overall selling space
 - Fewer mic-priced retailers
 - Tech-driven convenient shopping
 - Impressive high-impact experiential retail hubs



Key themes for the future of retail

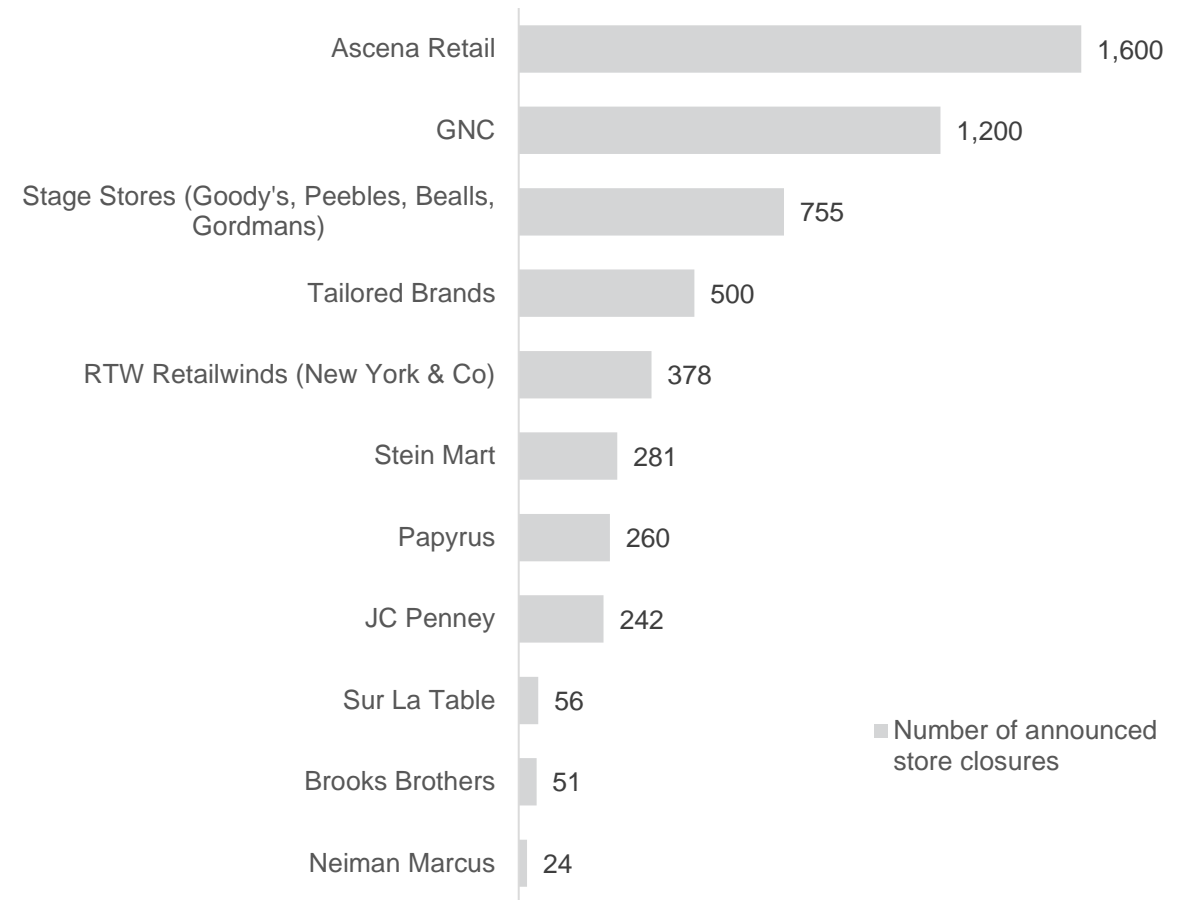


Theme	Potential impact
A world of retailer have and have-nots	<ul style="list-style-type: none">• Essential retailers including grocery stores, mass merchandisers, home improvement stores and quick-service-restaurants have seen significant sales increases during the pandemic and will continue to outperform other retail sectors.• Retailers unable to operate at full capacity like dine-in restaurants, gyms and theaters will struggle to remain in business.• Mid-priced retailers, specifically mid-priced apparel and department stores, will struggle to stay relevant as consumers emerge from the pandemic with tighter budgets looking for value.
Less retail space	<ul style="list-style-type: none">• Increased bankruptcies from COVID-19 will expedite closures and leave large vacancies across the country, particularly in B and C malls. Much of this space will not be re-tenanted and will either be demolished or repurposed for other uses.
Growth of e-commerce	<ul style="list-style-type: none">• E-commerce sales had been growing steadily over the past decade, but the pandemic will have accelerated that growth.
Shoppers demand convenience and reliable omnichannel options	<ul style="list-style-type: none">• Buy online, pick-up in store and curbside pick-up will be a requirement for many retailers as shoppers have become accustomed to convenience during the pandemic.• Real estate with drive-thru capabilities will be in demand from quick-service restaurants.• Retailers will incorporate more technology into the shopping experience for customers and will utilize new software for back-of-house operations to improve efficiencies.
Entertainment & restaurants will make a comeback	<ul style="list-style-type: none">• Prior to the pandemic, entertainment was one of the top uses for retail space as consumers prioritized experience over material goods, especially younger generations.• When people feel comfortable socializing again, demand for entertainment and dining out will return. More than ever, people will value time spent with family and friends and will seek out these experiences.

Retail bifurcation: the loss of mid-priced retailers

- Recently, both value retailers and luxury retailers have performed well. Value provides sought-after deep discounts to consumers on a budget, while luxury offers differentiated in-store experiences that draw high-income shoppers.
- Middle-of-the-road retailers, on the other hand, who do not have a clear differentiation strategy are struggling.
- Prior to the pandemic, mid-priced retailers had only seen 2% growth over a five-year period, compared to luxury's 81% and value's 35% (Deloitte, 2018).
- Malls are especially overexposed to mid-priced retailers. Apparel and accessories stores account for 57% of total mall space.

Bankrupt mall-based retailers closed thousands of stores in 2020



Source: JLL Research, Creditintel, PNC

A reduction in retail space

- In the U.S., 46% of GLA is devoted to department stores, compared to 27% in the U.K. (the region with the next largest percent).
- As of mid-2020, four department stores have announced Chapter 11 bankruptcy. While the future of the brands isn't certain, there will certainly be a reduction in the number of stores.
- Closures will be focused in B and C malls with underperforming locations.
- Many of these closures will be re-tenanted with other uses like education and medical. Underperforming malls that lose 3 or more anchors will likely not rebound and will be converted into another use completely.
- Leases will also adjust for this new normal: lengths will shorten, and specific clauses will be included that adjust rent collection based on sales in fear of future shut-downs. Rent structures will move away from percentage sales as the physical store and online platforms merge.

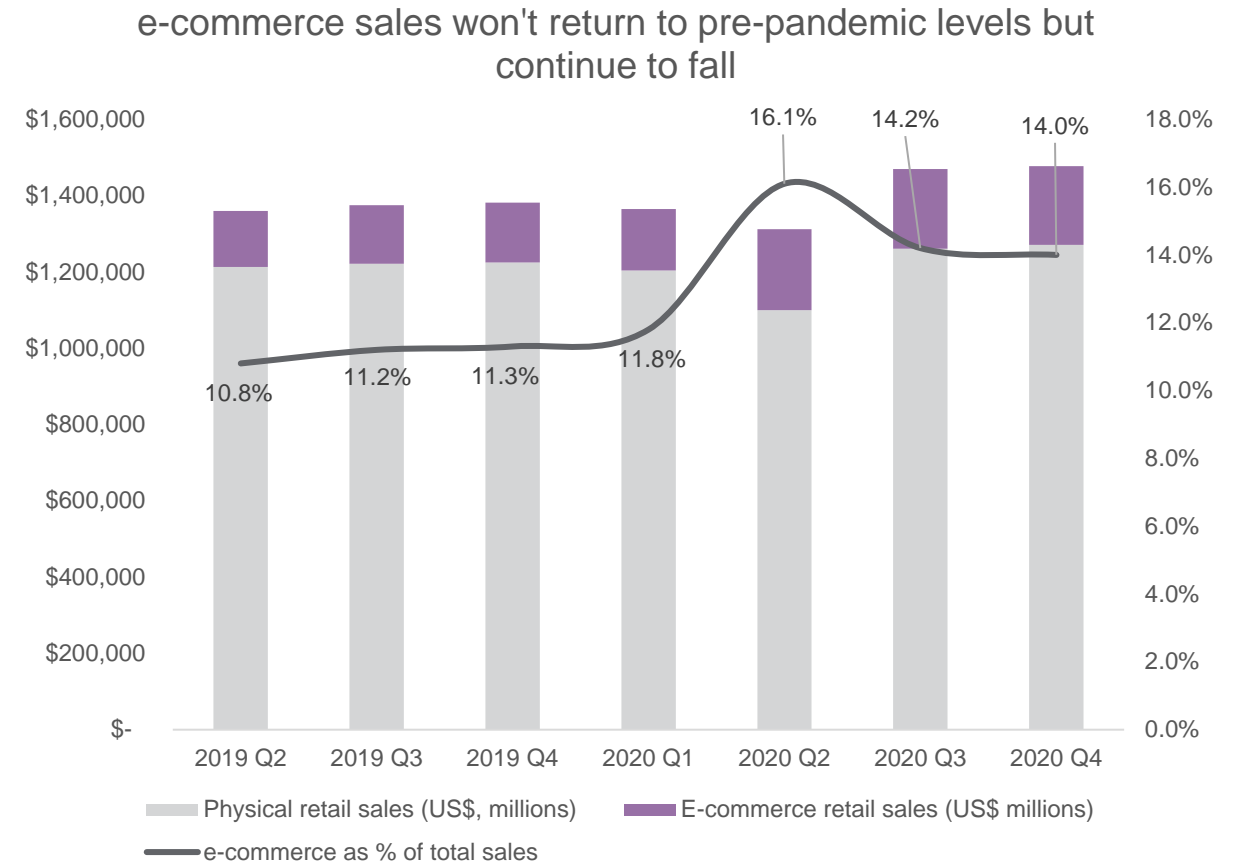


Image source: dcist

COVID-19 will accelerate the growth of e-commerce for all retailers (especially grocery)



- E-commerce sales accounted for 16.1% in Q2 2020, a 31.9% quarter-over-quarter jump as lockdowns were put in place across the country.
- Online sales remain elevated over 2019 levels but have since fallen since the height of stay-at-home orders.
- Prior to the pandemic, the grocery sector had been relatively untouched by e-commerce.
- Expect a rise in micro-fulfillment centers as grocers look to capitalize on their existing footprints and create a more efficient process of fulfilling orders.
- E-commerce grocery sales will slow again but will not return to pre-COVID levels.



Source: JLL Research, US Census

Creating reliable, convenient options: speedy delivery, in-store pick up & drive-thru's

- The pandemic has made shoppers more people comfortable with alternative shopping options.
- As of December 2019, 6.9% of retailers offered curbside pickup. Fast forward to August 2020, 43.6% of retailers offer curbside pickup (eMarketer).
- Target's curbside pickup service grew more than 700% last quarter and acquired 10 million new digital customers in 2020.
- Mall owners developed centralized pick-up stations for customers who want to buy from multiple stores for pick-up.
- Retailers have already been thinking of how to aid in last mile urban logistics with existing real estate to expedite shipping times.
- Retailers are looking to dark stores to streamline delivery services and better serve online orders.



Shake Shack is adding its first drive-thru next year. Image source: NRN.com

Fulfillment and Return Methods US Adults Plan to Use More of After the Coronavirus Pandemic, July 2020

% of respondents

Collect digital orders from curbside/outside a store	68.2%
Collect digital orders from inside a store	59.6%
Return an item bought digitally to a store	49.7%

Source: GlobalData, "Multichannel Retail and COVID-19," Sep 15, 2020

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eMarketer | InsiderIntelligence.com

Source: eMarketer, Future of Retail 2020

Retailers focusing on “last mile” home delivery and fulfillment



Entertainment & dining out will make a comeback



- Prior to the pandemic, entertainment concepts were seen as new anchors for shopping centers.
- Almost 30% of consumers said that it was important for their shopping centers to have family-friendly entertainment (JLL Research, 2019)
- People miss dining out... a lot!
 - 57% miss their favorite neighborhood restaurant*
 - 33% miss their favorite fine dining restaurant*
 - 41% miss socializing with friends or family**
 - 26% miss food they can't or haven't made at home **
 - 19% miss the ambiance or atmosphere **
 - 17% miss being served or waited on **
 - 12% miss getting out of the house **

Source: *Zagat study, Future of Dining, Q2 2020;
** Morning Consult Survey, Q2 2020



Expanding retailers, concepts and categories



Grocery – LIDL, Sprouts, Amazon, Whole Foods, ShopRite, Trader Joe’s

Quick serve and fast casual drive thru concepts – Chipotle, Panera, Dunkin, McD’s, Jersey Mike’s, Bubbakoos, Raising Cain’s, Slim Chicken

Home improvement, furnishing, mattress – Mattress Warehouse etc., Home Depot select markets, At Home, Floor & Décor – need to cannibalize existing stores

Medical – Urgent Care, Lab Corp, Quest, Testing centers, Primary Care, Vet centers, Physical Therapy - ALL

Cannibas – new, controversial, tenants circling

Self storage -continuous

Discount – seeking even better rent deals (Marshall’s, TJXX, Burlington)

Dollar Stores growing (last year DG added nearly 1500 stores)

Not yet – kids entertainment, fitness, large entertainment, full-service dining, most apparel



DOWNTOWN



Change zoning to be OPEN FOR BUSINESS, create Covid-19 Overlay Zoning recommendation

Encourage Board flexibility when hearing applications on shortfall, parking or use

Work w LL on deal structure including pricing to make a deal and get tenants in

Consider using SID money for fit up (venting, white boxing on a match basis)

One stop – organize building department intro's, line up professionals for new business owners perhaps even on retainer from SID, set in take Zoom calls

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