RETAIL & COMMERCIAL GROUP
2020 FORECAST

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WILL RETAIL KEEP ROLLING INTO 2020?

by Scott Grossfeld

Last year (2019) was similar to recent years for the retail sector, in that retail remained a reasonable, well-performing, stable and mildly growing class, facing a few curveballs to navigate over the course of the year. However, all in all, core fundamentals appeared to remain strong and well rooted. Despite this, various factors persisted during the year that could not help but make one feel that the economy, and retail in particular, had a potential of falling back into recession. Uncertainty resulted from volatility in the stock markets early in the year, trade disputes and tariffs, international trade issues and Brexit, international political disputes, turmoil abroad and at home (including impeachment issues), and various other factors. The question is whether, and how long, the retail market will be able to stave off the impact of these influences into the future.

The good news looking forward is that the foundations and fundamentals still look strong. Heading into 2020 the stock markets are at all-time highs, consistently setting new records. Unemployment is at record lows. Wages are increasing, interest rates are low and capital is plentiful. At its most recent meeting, the Federal Reserve Board announced that it would not increase the federal rate for borrowing funds and that it was not likely to increase the rate for the immediate future. Consumer confidence is at reasonably high levels. And, the Administration announced a Phase 1 deal with China on trade to be signed in mid-January.

The foregoing factors point in a very positive direction for the availability of capital for the continuation of retail development and productivity and the availability of disposable funds for goods to sustain consumer activity. So long as these fundamentals remain strong, the prognosis for retail should remain good.

It was noted in a recent *Orion Investment Real Estate* article that "[a]s of December, the U.S. economy has expanded for a record 126 straight months, the longest time period in the country's history according to the National Bureau of Economic Research. Put another way, the U.S. has avoided a recession for an entire calendar decade for the first time ever." However, some fear that the recovery from the Great Recession has been longer than should be expected and that the current Presidential Administration's policies as to the economy are overly random and arbitrary. For these and other reasons, the economy and retail may begin to slip from their positions of growth and have commentators wondering *"if and when the other shoe may fall."*

Holiday Sales and Other Indicators of Growth

As we have reported over the years, recent performance of the economy and holiday sales are often good indicators of upcoming retail industry performance in the ensuing year. Based on projections from retail industry analysts and other data, the general U.S. economy at the end of 2019 and the 2019 holiday sales period appear to have performed exceptionally well and are harbingers of good things to come in 2020 for the retail industry.

Based on a recent *Wall Street Journal* article, U.S. retail sales rose 0.3 percent in October 2019 from the previous month and sales in the first 10 months of the year were up 3.1 percent over the same period in 2018. In addition, according to a recent *AP* article, the National Retail Federation forecasted an increase in retail sales during the holiday sales period of between 3.8 percent and 4.2 percent as compared to 2018.

Recent publications of the *International Council of Shopping Centers (ICSC)*, including in its *Industry Insights* and *ICSC.com News* publications, projected that "[n]o fewer than 90 percent of holiday shoppers plan[ned] to shop in stores [during the 2019 Black Friday weekend], and that rises to 97 percent when purchases made online from retailers with stores are included."

It was noted in ICSC's research that "despite growth in online shopping – much of which is actually a result of traditional brick-and-mortar retailers' expanding their online capabilities – physical stores remain the indispensable foundation of the consumer landscape. The importance of these venues is even greater this year, given a solid rise in the amount of shoppers planning to use click-and-collect." Click-and-collect shopping is the practice "by which customers buy online and pick up their goods in stores, [which ICSC found] will be popular, with 44 percent of holiday weekend shoppers saying they'll be shopping this way compared to 40 percent in 2018. Of this year's click-and-collect shoppers, nearly three quarters say they expect to make an additional purchase when picking up their merchandise."

It is apparent that brick-and-mortar retailers are continuing to learn, evolve and become increasingly flexible in response to the growth of e-commerce. This has resulted in the growth of omni-channel resources and retailing. Retailers that have better adapted to e-commerce options in their businesses have been most able to survive and move forward in the internet retail economy.

Concerns in 2020

As with the past few years, despite the positive economic figures, nagging issues and concerns continue to exist that could impact the retail sector going forward.

Many commentators remain concerned about the ongoing uncertainties stemming from the U.S. trade war with China and related tariff battles. These disputes could easily affect the delicate balance of the economy. It is true that a Phase 1 deal appears to be on the horizon, but if history is any indication, it would not be a surprise if an agreement is ultimately dishonored or later negotiations go awry, with potential negative effects on the economy.

In addition, Brexit should finally occur in 2020. This will likely have a significant impact on the global economy, but how it may impact the U.S. will remain to be seen.

Last year surpassed 2017 in store closings. Store closures of significance included locations for Sears, JC Penney, Bed, Bath & Beyond, CVS and Forever 21, to name a few. Whether major closings will continue into 2020 and how the excess space from such closings would be absorbed is unknown. However, to the extent retail is able to remain reasonably robust, the retail sector should be able to adapt.

Trends

As e-commerce has grown over recent years, brick-and-mortar retail has adapted, evolved and changed. These changes have mostly occurred (and will continue to occur) as a result of e-commerce forcing brick-and-mortar uses that are more popular online to operate exceedingly less (if at all) in physical stores. In contrast, a more recent phenomenon, is that traditional online retailers are starting to operate physical store locations.

According to the *2020 Emerging Trends in Real Estate* published by PwC and ULI, "[a] new crop of retailers have recognized the importance of physical stores and they are slowly building out a brick-and-mortar footprint…. [O]nline brands are expanding further into brick-and-mortar spaces while legacy brands waver." An example of this is the entry of various Amazon concepts into the retail marketplace.

As many commentators have noted for years, retail has been moving towards a more experiential and entertainment-focused dynamic – something that cannot be duplicated by the internet and e-commerce. As stated in *2020 Emerging Trends in Real Estate*, "[n]ew experiential and entertainment uses, centered on one-of-a-kind activities, such as art, amusements, or food, are continuing to push the boundaries of what is supportable in shopping centers…. [T]he share of space devoted to restaurants, fitness centers, and entertainment has doubled over the past 10 years, while the share of apparel space continues to decline." Despite this trend, significant apparel-heavy, value retailers, such as Ross, TJ Maxx and Marshalls continue to perform well.

Food and beverage uses are increasing in popularity and number. Food halls in some markets are becoming very popular. Fitness, health and wellness uses in all forms, including high-end, big box, boutique and value, continue to expand. Co-working and shared office spaces are also attracting interest from shopping center developers, particularly in malls with spaces vacated by department stores and similar large users.

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Consistent core fundamentals continue to keep the retail sector alive, well and a viable force to be reckoned with into 2020. Outside forces continue to be concerns that need to be monitored and may impact the health and well-being of the sector. However, so long as unemployment and interest rates remain low and capital investment remains available, retail should continue to expand with the remainder of the economy.