



NEXT

Fall 2021 | U.S. Retail Report

New Innovations Drive Retail Resurgence

Retailers adapt to meet changing shopping habits



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Introduction

Anjee Solanki | National Director, Retail Services



Retailers are currently facing unique pressures. The industry is being forced into a new phase of innovation and safety (post-pandemic), all while ensuring growth is appropriately managed. Operational efficiency is more critical than ever before as costs continue to rise throughout the shopping lifecycle and the omnichannel space.

In this quarter's report, you will learn how retailers are adapting to the new normal, how these shifts may impact developers and what the future holds for retail revenue.

Changing Store Formats

Adapting store layouts to include fulfillment centers

Thanks to the technological integrations retailers added during the pandemic, more online orders have become connected to stores. This continuity has compelled retailers to adapt their store operations to manage the influx. Supporting high volumes requires brick-and-mortar locations to accommodate a range of distribution and fulfillment options, prioritizing a dedicated space for packaging and shipping; in addition to having adequate staff to process and handle orders. Sufficient inventories and streamlined processes for collection and returns must also be in place.

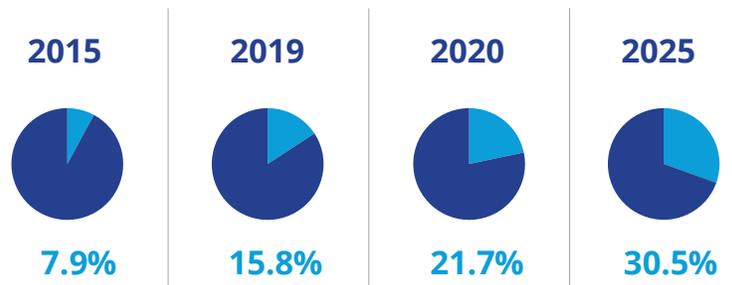
By 2025, we estimate just under a third of all digital transactions will be fulfilled by a physical location, whether from curbside or in-store collection to products shipped directly to consumers' homes. Bridging the gap between stores and fulfillment operation is a sensible way of increasing capacity, boosting sales, and guaranteeing physical shops remain a relevant part of the ecosystem. Target, for example, reported that [sales through its drive-up service increased by 600% last year](#).

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Omnichannel percentage

Proportion of online orders that are fulfilled by omnichannel methods (U.S.)



Proportion of online orders that are fulfilled by omnichannel methods by country

<p>Australia</p> <p>14.39% 19.50%</p> <p>2019 2020</p>	<p>Japan</p> <p>10.19% 13.52%</p> <p>2019 2020</p>
<p>India</p> <p>7.80% 10.27%</p> <p>2019 2020</p>	<p>UK</p> <p>24.22% 27.26%</p> <p>2019 2020</p>
<p>France</p> <p>9.85% 11.75%</p> <p>2019 2020</p>	<p>Germany</p> <p>12.12% 14.97%</p> <p>2019 2020</p>

Optimizing the omnichannel experience

Despite consumers embracing the convenience of omnichannel, many must adjust their expectations regarding wait times when collecting a product in-store. Our data shows that 43% of shoppers reported at least one issue when using omnichannel services, suggesting retailers need to further streamline this shopping experience.

Ongoing pressures in the labor market, paired with the increase in omnichannel volume, have forced retailers to reconsider their supply chain operations. As a result, many are exploring investments in both machine learning and automation to answer consumer concerns. A McKinsey & Co. report suggests that [successfully implementing AI-enabled supply-chain management has enabled](#)

[early adopters to improve logistics costs](#) by 15%, inventory levels by 35%, and service levels by 65%, compared with slower-moving competitors.

In a separate report, McKinsey estimates about [half of retail's operational activities may be automated](#). The pandemic provided retailers with a testing ground for automation technologies, determining their ability to manage distribution and warehouse fulfillment efficiently. Despite initial fears, [implementing automation is expected to create more new jobs than it replaces by 2025](#). This is good news for per diem employees, as it will require employers to retrain and upskill staff to ensure they are properly equipped for the future of work.

Omnichannel shoppers who rate certain aspects of the experience as poor Percentage of consumers





The ‘revolving door’ of store layouts

While physical stores remain a critical part of an omnichannel ecosystem, consumers are now using shops in a more multifaceted way. As a result, retail brands are leveraging a combination of wayfinding assets to reinvigorate store footprints to accommodate new shopping habits.

In addition to beacons, mobile apps, in-store kiosks and traditional retail signage, [up to one-third of store space will be reallocated to fulfill online orders](#) in major channels and larger store formats.

Changes to store that omnichannel shoppers would like to see

Percentage of omnichannel consumers mentioning each

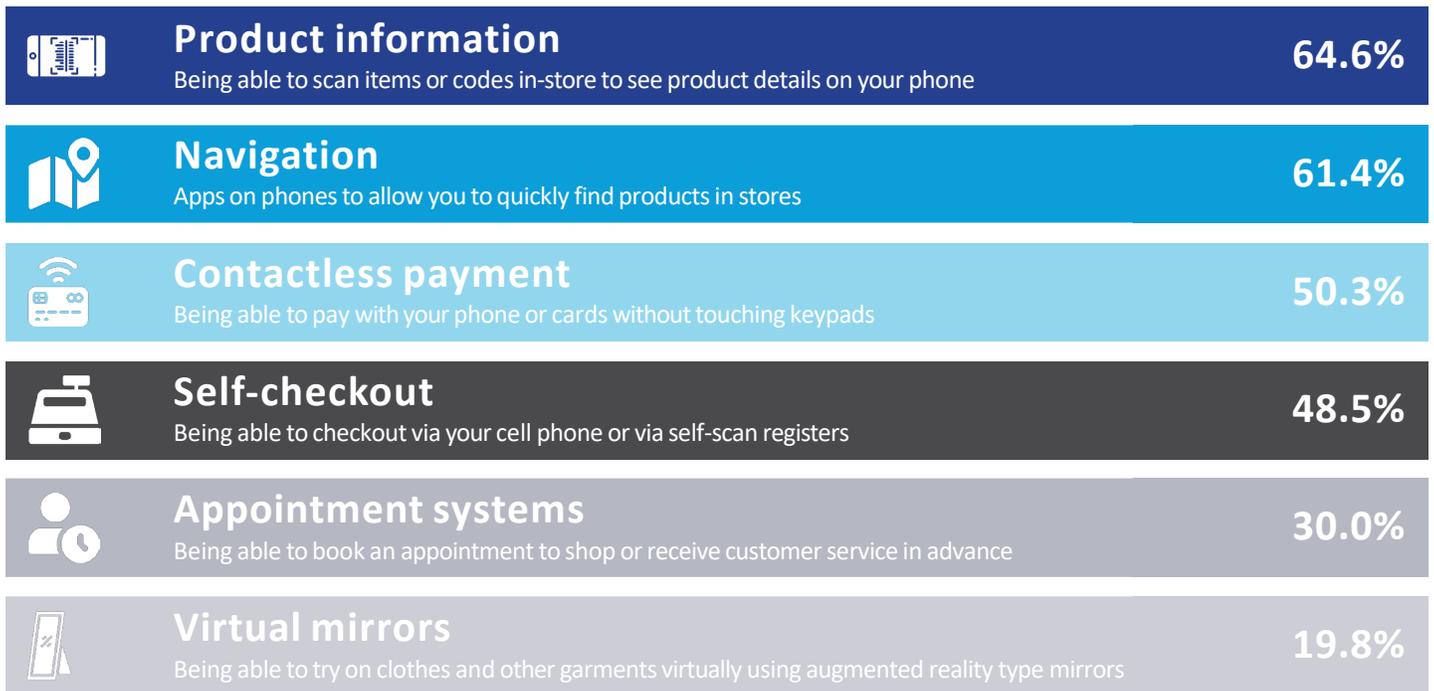
Improvement	% mentioning
Dedicated return point for unwanted online orders	72.9
Automated drop off points for online returns	70.4
Separate, dedicated drive-thru collection point for online orders	68.2
Easily accessible customer query or service point in store	65.3
Separate area or entrance for online in-store collections	60.3

Safety first, then experience

Consumers have become hyperconscious and mindful of their use of and physical interactions with the in-store environment. According to [ICSC](#), frequent cleaning and sanitizing was the top (66%) measure to make consumers feel more comfortable visiting physical spaces. In addition, retailers offering contactless payment, self-checkouts and virtual mirrors have minimized the tactile experience in-store, assuaging consumer fears amid pandemic uncertainties.

In 2020, retailers spent nearly \$30 billion on pandemic safety measures at retail locations and back-end operations. This included the additional labor costs associated with enhanced cleaning and store safety. While initiated by consumer concerns, these solutions have also enhanced the general shopping experience by giving consumers more power to shop the way they want.

Consumers who say that they would like to see various technologies in store to help them feel safer Percentage of consumers



Retailer Case Studies



No cashier, no contact

Voice and face recognition technologies that feature speech and eye scanners once relegated to [science fiction movies](#) are now in-store security features. Several mainstream retailers have established regular use of these concepts to create a contactless environment for shoppers, but none more prominently than Amazon.

Amazon One launched dedicated palm scanners in its Amazon Go convenience stores, Amazon Go Grocery, Amazon Books and Amazon 4-star stores to ease payment for shoppers. The device at store entry points lets pre-registered shoppers link a credit card to their unique palm identifier to initiate payment for groceries and goods. The device at store entry points lets pre-registered shoppers link a credit card to their unique palm identifier to initiate payment for groceries and goods. The biometric technology analyzes the shape of a user's hand using infrared to record its unique vein configuration. Amazon recently put out an incentivized call to action for consumers to pilot the program, offering \$10 store credit in exchange for their palm scan to launch the payment program. Amazon claims that it's the most "private form of biometric authentication" in the market and is likely to accelerate the acceptance of contactless methods for future store upgrades. The launch of Amazon One has had much success during the pandemic, as consumers have been inclined to frequent stores that promote contactless payment options for their essential purchases.



Luxury retailers blend physical stores with digital displays

Luxury retailers have begun to blend the digital world with the physical one to attract a new generation of global shoppers. Gen-Z and Millennials are willing to spend their money aspirationally on products, but [74% prefer to experience brands](#) before making that decision.

Luxury retailer Fendi relaunched its flagship store on 57th Street in Manhattan with a virtual store component meant to engage consumers unable to visit in person. The online experience captivates visitors with exclusive services and spaces, including the ability to create wish lists, live chat with stylists, and walk-through specially designed VIP rooms.

Burberry opened an outpost in China's Ginza district featuring a Google Street View like walk-through to showcase the store layout and the products therein. Finally, Zara posted a digital effect of what appeared to be a wildly colorful art installation in a window display at its Soho storefront in NYC as part of a strategically placed TikTok stunt. Although the storefront designed by artist Shane Fu may only exist in the digital world, it drove significant foot traffic to the brick-and-mortar store.



Retailers test concept stores to attract consumers

Reengaging consumers may take a bit of reconfiguration when it comes to the overall store layout. [For example, Dick's Sporting Goods has launched several new store concepts](#) to compete with prominent retailers like REI and Paragon, including its first House of Sports, complete with recreational features like a batting cage, rock climbing experience and a turf field. However, analysts suggest the sports retailer approach meets consumers' immediate need to connect cerebrally.

China's leading online company JD.com marked the launch of two new lifestyle concept stores, namely 7Fresh Life and Seven Fun Lifestyle, in Beijing, to promote its offline strategy. Operating under JD.com's offline supermarket 7Fresh, 7Fresh Life combines a restaurant, fresh food and convenience store. Equipped with autonomous shopping carts, shoppers can order from JD.com's online platform using 7Fresh Life's delivery app. In addition, the

entertainment complex Seven Fun Lifestyle serves as a "third space" for working professionals featuring dining, drinking, and socializing elements that integrate in-store and digital platforms. The launch of these two premium lifestyle stores will allow JD.com to compete with [Freshhema](#), Alibaba's flagship supermarket. The stores will feature more than 3,500 products, all concentrated in a 1,000 square meter footprint catered to customers of all ages.



First Half 2021 Retail Growth + Forecast

An impressive start for CRE retail in 2021

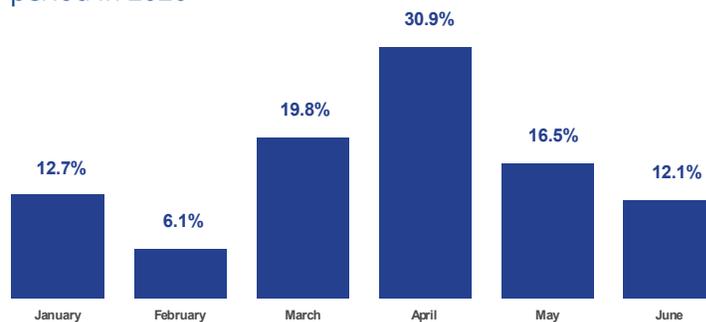
Despite negative headlines and forecasts predicting retail Armageddon, 2021 has been promising. Since the start of the year, retail sales have seen significant growth even without last year's weak sales figures. In comparing retail sales on a two-year basis, current sales are exceeding 2019 figures thanks to an injection of stimulus payments, extra child tax credits, higher savings rates, and a strong comeback from the job market where wages are rising.

Retail fundamentals have also improved as vacancies are down, rents have increased, and leasing activity has boosted absorption. Retailers signed more than 41,000 new leases spanning more than 123 million square feet in the first half of the year, neutralizing reports of increased vacancies and bringing the year-to-date absorption to 23.5 million square feet. In addition, grocery, discount, home décor and beauty drove positive demand for commercial real estate.

Moreover, retail openings are outpacing store closures, as the amount of space retailers plan to close in 2021 — 44 million square feet — is on pace to be the lowest annual total in more than a decade.

However, as consumers shifted toward services, especially at restaurants and bars, the sale of retail goods took a hit, leaving room to rethink their strategic positioning.

2021 retail sales growth by month
Percentage change compared to same period in 2020



Record retail sales during the first half of 2021

Core retail sales, which excludes gasoline, automotive vehicles, and foodservice, totaled \$3.28 trillion in the first half of 2021. This is the highest level on record and 16.3% more than was spent in the same period of 2020. Even when compared to 2019, first-half sales in 2021 are \$361 billion higher.

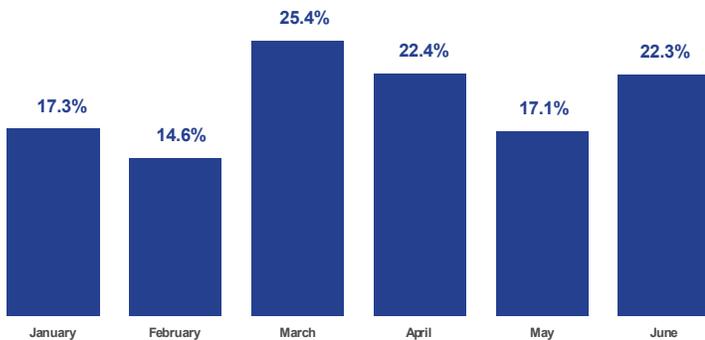
The Conference Board forecasts a 6.6% increase in the U.S. economy by the end of 2021, based on a surge in consumer spending as the economy fully reopens. Thus, the recent narrative detailing retail's slump no longer stacks up against spending numbers. Instead, we see significant momentum in the consumer economy where sales and consumer confidence levels rise.

Total retail sales increased by 18.5% in Q2, with shoppers spending a combined \$631 billion in June. While initially boosted by federal stimulus payments, the fading impact of these payments is evidence that retail sales growth is adjusting as the retail sector saw its first month-over-month sales decline in July.

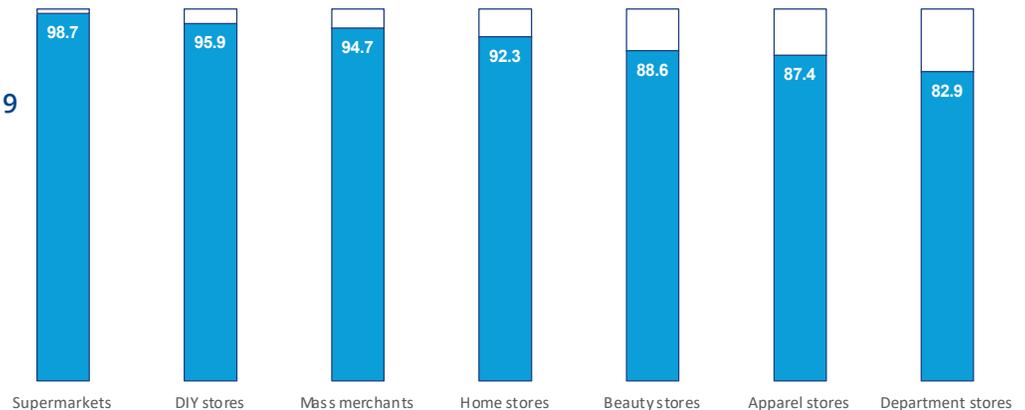
Summary of first half growth for 2021 retail sales
Numbers as stated in table

H1 (January through June) Period	% growth	\$ growth
2021 growth over 2020	+16.3	+\$303.6bn
2021 growth over 2019	+19.9	+\$361.0bn

2021 retail sales growth by month
Percentage change compared to same period in 2019



In-store foot traffic attained in June and July (to-date) 2021 compared to same period in 2019
Percentage attained



Foot traffic takes a step forward

Foot traffic has gained traction amid increased consumer visitation to entertainment as well as food and beverage hospitality segments. Zenreach reported H1 2021 growth for bars/nightclubs (43%), restaurants (44%), pizzerias (47%) and cafes/bakery/dessert businesses (73%). While overall retail footfall in the U.S. is currently down 9% over 2019, it has leveled out in many categories including supermarkets, DIY stores, mass merchants and home stores. Downtown corridors remain stagnant as the office markets' return-to-work strategy continues to shift, leaving suburban markets to thrive.

Big box retailers have seen a positive impact and increased foot traffic (and dwell time) as "mission-driven shopping," where shoppers minimize their time spent looking for groceries and essential items, takes precedence. Superstores in Northern and Midwestern states appear to have made an earlier recovery than stores in the Western and Southwestern states. This means other metrics, like conversion rate and average basket size, both up since 2019, have allowed growth despite reduced footfall levels.

An optimistic forecast

We anticipate 11.4% retail sales growth for the entirety of 2021. Rising COVID-19 case counts notwithstanding, retail sales are projected to top a record-setting \$4.5 trillion this year.

The demand for retail essentials is expected to remain steady throughout the remainder of the year as the industry adapts to the latest restrictions and uncertainty around the holiday season. Although the sector may experience price increases due to lingering supply chain issues, we expect online sales to take a bigger piece of the pie as shoppers defer to e-commerce to get the best holiday deals. Preliminary forecasts predict total holiday sales will grow by 6.3% in 2021.





Conclusion

Nicole Larson | Research Analyst, National Retail Research



The retail sector showed great improvement throughout the first half of the year, displaying strength from retailers, consumers, and the economy. Leasing activity was robust, sales posted growth in every category, and retail openings

outpaced closures. Fundamentals are expected to stabilize in the remainder of the year as the virus changes and new variants spread. Despite the uncertainty, one thing we know to be true is that retailers are agile.

While new restrictions and mask guidance could keep shoppers out of stores again, it would likely fuel e-commerce and push consumers toward omnichannel offerings. Economic growth is expected to slow as consumer confidence and store foot traffic begin to waver, but the ability of the retail industry to adapt to ever-changing conditions and preferences, particularly over the past year, makes us confident the sector will continue to remain resilient.

351 offices in 67 countries on 6 continents



\$3.3B
in revenue



2B
square feet under management



18,000 +
professionals and staff

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