

US Retail Industry Set To Enter 2022 on a Rebound

Major ICSC Trade Show Kicks Off in Las Vegas With Strengthening Outlook, Though New Coronavirus Variant Looms



Retail industry professionals are gathering at the Las Vegas Convention Center this week for ICSC's "Here, We Go. 2021" conference. (CoStar)

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In the case of the U.S. retail industry, what didn't kill it actually made it stronger.

The pandemic, which helped drive already-rising e-commerce sales, had some naysayers writing obituaries for brick-and-mortar retail, for stores as well as malls and shopping centers. While many malls were in fact left reeling, and stores still remain vacant across the country, weaker players are seen to be giving way to stronger retailers that are becoming even more dominant.

The industry is now moving into 2022 buoyed by a resurgence that some real estate brokers, retailers and landlords say was partly fueled and facilitated by the COVID-19 outbreak. The descriptions are a parade of “R’s”: not only resurgence, but reset, recovery, rebound and resilience.

As part of the turnaround, bankruptcies are on pace to affect the least amount of retail space since 2016, while openings are on track to exceed closings in 2021, according to Brandon Svec, CoStar's director of U.S. retail analytics.

And Barrie Scardina, head of retail for the Americas at real estate firm Cushman & Wakefield, told CoStar News, “As we close out 2021, the retail industry is seeing strong signs of recovery. Retail sales are at an all-time high driven by strong consumer demand and the benefit of the 2020-21 stimulus. Vacancy rates have dropped to 6.8%, and we will see almost twice as many store openings as closings this year.”

She said the amount of physically occupied space and rents is “moving in a positive direction,” while foot traffic returns to malls.

This is the backdrop for ICSC’s “Here, We Go. 2021” conference in Las Vegas, which kicked off this weekend. The retail real estate trade group expects more than 10,000 attendees.



Pent-up consumer demand stemming from the height of the pandemic, when Americans had to stay home, is driving retail sales. On Black Friday this year, shoppers lined up to enter a Lululemon store at Fashion Outlets of Chicago. (Getty Images)

The pandemic put the kibosh on the organization's usual gatherings last year, including its big [RECon conference](#) in Las Vegas typically held in May and its [“New York Deal Making”](#) confab in Manhattan in December. RECon, the [Manhattan-based](#) group's biggest conference, typically attracts more than 30,000 attendees, including retailers, real estate brokers, landlords and tech startups.

“I’m very bullish on this conference,” said Ariel Schuster, a Newmark vice chairman, who welcomed the opportunity to gather with industry members after a 20-month lapse.

Big Pivots, E-Commerce and Smaller Stores

The improvement is leading to some positive industry buzz going into the event, partly because of some macro factors. And it's despite the uncertainty over the impact of the new omicron coronavirus variant. For example, there still appears to be pent-up consumer demand from Americans who, after being temporarily confined to their homes, with nonessential stores and entertainment options closed, are eager to spend.

And during the pandemic's peak they increased their savings and even received federal stimulus payments, giving them more disposable income.

But the industry also quickly pivoted to rescue itself from disaster during the past 18 months, as well. Retailers — from Walmart to Macy's to Target to Bed Bath & Beyond — jump-started their e-commerce capabilities, with stores being transformed into mini-fulfillment centers for shoppers to pick up their orders. Companies have also become savvier about their individual store footprints and in some cases are downsizing them to increase their market penetration efficiently and cost effectively. And they've honed their inventory control and cut back on discounts.

Retail categories that grew more popular amid the pandemic — from discounters to home-goods purveyors — are in expansion mode, with hundreds of store openings planned. Digital-native companies — from e-commerce juggernaut Amazon to Allbirds to Warby Parker — are also debuting more and more brick-and-mortar sites.

Of course, the past year or so wasn't good for every retailer, and the 2022 outlook isn't rosy for everyone, either. One of the pandemic's most obvious repercussions was that it widened the gulf between the strong — and now often lean — and the weak, accelerating the demise of the most troubled retailers, fueling a flood of bankruptcies and store closings. The ailing ones that are still hanging on could also succumb next year, according to retail brokers and other industry professionals.



Retail trade groups are predicting a record season for holiday sales this year. A customer looks over goods at a Walmart store in Houston on Black Friday. (Getty Images)

Financial company B. Riley, in its retail industry report titled “The Ripple Effect,” warned retail bankruptcies could pick up next year even as the overall industry has improved.

“While activity is historically low in 2021, distressed retailers that have benefited from short-term financial assistance from their lenders and/or occupancy-cost reductions from their landlords will likely find themselves back in distressed situations as these short-term solutions burn off,” the B. Riley report said. “This dynamic should see retail filing activity return to typical levels in 2022 and beyond.”

And while many national retailers are thriving with sales rising, some local mom and pop stores and restaurants continue to struggle, according to CoStar's Svec.

Incoming Headwinds

The retail industry also faces challenging macro headwinds next year. While retail observers said it's hard to gauge what its effect will be this soon, omicron is threatening.

“Retail and therefore retail real estate should have a strong viable runway assuming no black swan event,” said Daniel Taub, senior vice president and national director of retail for Marcus & Millichap.

Asked whether omicron will prove to be a black swan, namely an extremely rare yet severe event, Taub said it's too early to tell.

“We don't really know much or enough to understand if it can/will be something like the initial onslaught of COVID in March 2020,” he said.

In terms of ongoing challenges, some analysts don't expect supply-chain snafus to be resolved until later next year. And rising inflation could curb consumer spending.

Furthermore, the retail recovery is somewhat uneven, according to Svec and Cushman & Wakefield's Scardina. Sun Belt states such as Texas and Florida, and the South and West are seeing the strongest demand from retailers that are expanding.

Suburban markets are generally outperforming cities, according to Scardina. She expects to “see recovery in urban markets as workers return to the office.”



This year, because of concerns about shelves being empty from supply-chain bottlenecks, many Americans started their holiday shopping early. But consumers did show up at brick-and-mortar stores on Black Friday, at places such as Fashion Outlets of Chicago. (Getty Images)

Several of JLL's retail brokers and analysts outlined the shift in a presentation on the state of the industry last month.

“Twelve months ago in November of 2020 we were talking about reinvention, reimagining, rejuvenation and reinvigorating of the shopping center and the retail experience,” said Naveen Jaggi, JLL’s president of retail advisory services. “Today, 12 months later, we’re going through unprecedented growth across all asset classes and most all retail categories. We did not expect to the degree of growth that we’re living through today. ... It’s happened fast, it’s been like a hockey stick and it’s been in many ways quite amazing,” he said, referring to a sharp rise in closely watched data points.

He tagged malls as one of the areas seeing the biggest recovery.

Only Strongest Malls Survive

JLL manages 700 retail properties, with 100 of those enclosed malls, one of the categories hardest hit by the pandemic, according to Greg Maloney, JLL’s president and CEO of retail.

“We heard retailers are going to close all their mall locations because it just doesn’t make any sense ... but the mere fact now is we’re in a growth spurt,” he said.

Weaker retailers have been weeded out. The ones left have stronger balance sheets. Landlords are adding variety to their tenant mix to drive foot traffic. Some chains are expanding, and digital-native companies are looking for storefronts. All of these factors are a boon to Class A and now some Class B malls, Maloney and others said.

But about 35% of the nation’s 1,200 shopping malls are Class C properties, and they will have a rough go of it, according to Maloney.

“It’s still going to be a struggle,” he said. “Those are going to have to reinvent themselves.”

Svec described this phenomenon as part of the “bifurcation” in the demand for retail space, the sorting out of likely winners and losers. He also expects secondary and third-tier enclosed malls to have a hard time filling vacancies, especially big-box spaces.

“We are seeing Class A and B properties rethinking their tenant mix to drive footsteps, looking at the influence of new digitally native brands, experiential brands and the power of food and beverage,” Scardina said. “We will continue to see Class C and lower malls look for alternative uses — turning empty department stores into multifamily housing, looking at their properties as industrial-space alternatives and remixing space to create new formats.”

Retail space is currently being removed faster than it’s being built. As of Nov. 11, there were 116 retail properties of at least 10,000 square feet each, totaling 4.4 million square feet, that opened this year, according to Svec, citing CoStar data. During that same time span, 310 retail properties, totaling 17.3 million square feet, were demolished, according to CoStar.

Oversupply of Space

Nonetheless, there's an oversupply, according to analysts such as Neil Saunders, managing director of GlobalData, as well as brokers.

"Overall, we remain in a period of retail consolidation," Saunders said in an email. "The U.S. still has too much bad retail space and too many shops which are oversized. The coming years will see continued correction of those things. That said, although that is the headline view, there are still plenty of retailers looking to open stores and new space. Retail is very much in a position of out with the old and in with the new, which is a healthy thing for shoppers, investors and retail competition."

The United States has too much retail on a per capita basis, according to Marcus & Millichap's Taub.

"So we're overbuilt but we're under-demolished," he said. "What does that mean? Some of it's viable retail, some of it's not. So I think you're going to begin to see smart conversions to uses that have a higher and better use than what they were as pure retail."



Dollar Tree, which has multiple locations in Laredo, Texas, leased the most retail space this year as of mid-November, according to CoStar data. (CoStar)

That's easier said than done, according to Taub. Transforming or deconstructing a mall to include nontraditional retail but in-demand uses, such as residential or industrial, is a very difficult and capital intensive endeavor, he said.

"It's almost like how do you turn around a battleship?" he said.

Well-capitalized landlords such as Simon Property Group and Brookfield Asset Management are financially in the position to “place-make” and re-imagine their malls, according to Taub, but other retail property owners are not.

Brick-and-Mortar’s Revival

While the demise of chains such as Lord & Taylor made headlines in the past 18 months, a cadre of retailers expanded this year and plan to continue to do so in 2022. Companies that offered bargains are on fire, as are home-goods sellers and gym chains.

These are the top retail lessees this year as of Nov. 11, according to Svec, citing CoStar data:

- [Dollar Tree](#), 1,375,146 square feet.
- [Burlington](#), 1,218,893 square feet
- Target, 1,202,995 square feet.
- Floor & Decor, 843,887 square feet.
- [Planet Fitness](#), 786,004 square feet.
- At Home, 773,323 square feet.
- [Dollar General](#), 752,480 square feet.
- Crunch Fitness, 544,612 square feet.
- Big Lots, 534,483 square feet.

The various dollar-store chains have been multiplying locations “like rabbits” and “serve a lot of retail deserts in secondary and tertiary markets,” according to Taub.

“And they’re filling the void for national retailers with almost the classic general-store concept,” he said.

Perhaps the biggest testament to the viability of brick-and-mortar retail going forward is the way digitally native brands have embraced it, not the least of which being Amazon. While the e-commerce giant’s voracious leasing of distribution space has been well documented, it has also been increasing the amount of retail space it occupies for its Amazon Fresh, Amazon 4-star, Amazon Go and Amazon Books stores, as well as its Whole Foods Market grocery chain, according to Svec.

There are 81 Amazon stores open or planned, with 1.27 million square feet, and 360 Whole Foods supermarkets, with 14.8 million square feet, for a total of 16.1 million square feet, Svec

said, citing CoStar data. That's up from 2017, when there were seven Amazon stores with 36,200 square feet and 17 Whole Foods stores with 708,400 square feet, according to CoStar.

"We are also seeing many new digitally native brands looking for brick-and-mortar locations," Scardina said. "These brands have a deep understanding of the consumer experience and the importance of store locations."

To address their needs, Cushman & Wakefield has launched "DNB – Next," a group of brokers dedicated to strategizing the best locations for these brands to help them enter markets and develop expansion plans, according to Scardina.

Newmark's Schuster, who specializes in retail leasing in urban markets, said in the past few months he's seen an uptick in retailers signing leases and committing to longer ones, with 10- to 15-year terms. They are trying to secure space as the market for retail space tightens up, according to Schuster.

"To me, it's actually more than just a resurgence from COVID," he said. "It's a resurgence from where we were in 2018 and 2019, where there was a real sense that people were closing more stores than opening. ... It's just a different mentality now. You're hearing a different message from the retailers. ... It's really a comeback from the general trends."