2022 STATE OF THE INDUSTRY

ICSC.com · #ICSC

ICSC
INNOVATING COMMERCE SERVING COMMUNITIES

INTRODUCTION

The marketplaces and spaces where people shop, dine, work, and play have faced a string of existential challenges in recent years—punctuated by the COVID-19 pandemic. However, these gathering places continue to demonstrate their vitality in communities across America by adapting to challenging conditions—and changes in consumer behavior—with a combination of creativity and innovation.

Take, for example, the rigorous reassessment of how and where marketplaces operate. Retailers are reconfiguring physical stores as design and e-commerce fulfillment hubs to provide a competitive advantage and to drive omnichannel sales. In the suburbs, the retail mix is being actively reshaped to serve the mixed-use communities populated by remote workers who relocated during the pandemic.

Broadly, we're seeing plenty of reasons for encouragement. Consumers are embracing a greater sense of normalcy after the extended global emergency. The most stringent public health restrictions that governed how we could congregate over the last two years have largely come to an end. There's strong momentum in the labor force, too: The U.S. unemployment rate fell to 3.6% in March as the country recovered most of the jobs lost during the pandemic.

At the more granular retail level, the data around shopping centers, retailers and online marketplaces reflects this sense of confidence as well. At physical stores, foot traffic is returning to pre-pandemic levels. During the record-breaking 2021 holiday shopping season, retail sales grew 17% year-over-year. In fact, consumers who increased their spending over the most recent holiday period reported spending an additional 21% compared to the prior year, according to ICSC's 2021 Post-Holiday Survey.

This 2022 outlook examines the state of our industry as it has been permanently transformed. The report offers ICSC's analysis of key indicators pointing to the strength of the commercial real estate industry; the core challenges facing retailers, including how they're responding to inflation pressures, labor shortages and supply chain disruptions; the state of consumer confidence; and some emerging trends we anticipate will help these marketplaces continue to invigorate communities.

Tom McGee

Tom McGee
President & CEO, ICSC

RESILIENCE PAYS OFF

HOW THE MARKETPLACES INDUSTRY HAS ADAPTED TO NEW CONDITIONS

The Marketplaces Industry is still feeling the collective jolt of pandemic disruptions that began in 2020 when states ordered nonessential businesses to shut down to help stop the spread of COVID-19. Many of these businesses look and feel different today as a result—from the expansion of curbside pickup to changes in peak shopping hours as people take advantage of more flexible work schedules.

The most resilient brands and companies have invested resources to ensure they are evolving to accommodate these shifts, and data analyzed by ICSC shows these efforts are paying off: There were more announced retail store openings in 2021 than any other year since 2015, according to an analysis by ICSC and PNC Bank. In fact, the more than 5,200 announced store openings in 2021 equals roughly the same number of announced openings in 2019 and 2020 *combined.*

Retailers are also putting themselves on more stable footing with landlords. The 30-plus-day delinquency rate in March 2022 was 7.5%, or less than half the rate (18%) during the peak of pandemic shutdowns in June 2020.

Foot traffic figures are also approaching pre-pandemic levels. According to Olvin.com, April 2020 saw a 97% drop in visits to indoor malls as government mandates called for temporary closures. By July 2022, the visits are expected to rebound to near pre-pandemic levels. Across all center types traffic is down 7% from April 2019, but a marked improvement from the 93% drop-off in April 2020.

91%

average shopping center occupancy rate since the fourth quarter of 2019, the last quarter prior to the pandemic

Reinvigorated categories and multi-channel carts

A closer look at store category performance shows how consumer behavior is changing as people gather to socialize in greater numbers—and refresh their wardrobes after two years of remote work. Sales per square foot in the 12-month period between March 2021 and February 2022 increased more than 207% for movie theaters, by 60% for shoe retailers, and about 56% for beauty suppliers, according to data from Datex Property Solutions. Also in February 2022, year-over-year apparel sales were up 37.6% year-over-year—and 34.3% higher than in February 2019, according to the Mastercard SpendingPulse report.

Retailers are also investing in creating store-network distribution hubs that serve as convenient places for shoppers to pick up and return online purchases. Grocery sales are driving a significant share of that growth. Hero Digital, a digital transformation company, predicts e-commerce grocery sales will increase by 21% in 2022.

Beyond the grocery aisle, retailers are adapting to new consumer shopping habits by reimagining stores as design centers and e-commerce hubs—making them a key component of an omnichannel strategy. For example, in a recent presentation to investors, Williams-Sonoma, the kitchenware and home furnishings company, outlined how omnichannel customers spend four times as much and make three times as many visits as single-channel shoppers. The company has created a virtual design chat service in which design associates can help customers as if they were on the retail floor—contributing to both in-store and online growth.

Smaller, direct-to-consumer brands looking to scale up are also championing physical stores as a core component of their business. Brooklinen, the bedding startup, has reported seeing a bump in e-commerce sales when it opens a brick-and-mortar store—a sign that digital-first brands understand the power of physical locations where customers can interact with their products; a finding detailed in our 2018 Halo Effect report.

Global e-commerce grocery sales will surge to **$800 billion** by 2025.

Source: Technavio

CONSUMER CONFIDENCE **TESTED, BUT NOT DETERRED**

In 2022, inflation hit its highest level in 40 years while U.S. consumer sentiment sunk to its lowest level in over a decade. Despite these headwinds, there are signs that some of the financial and emotional pressures that accumulated and accelerated throughout the pandemic have begun to abate.

Bank account data shows that most Americans, mainly the highest earners, are better off financially now than they were before the pandemic began, thanks to trillions in savings.

Compared to pre-pandemic figures in February 2020, U.S. retail sales are up 25% (not adjusted for inflation). This is especially impressive since annual inflation hit 7.9% in March 2022—the highest rate since 1982.

Consumers' comfort with in-store shopping is approaching the peak reached in summer 2021, according to a Morning Consult survey of more than than 8,000 adults across the United States, Europe, Mexico, Australia and China.
In the survey, 82% of respondents say they prefer to shop in-person for groceries and household goods compared with 16% who prefer to do so online.

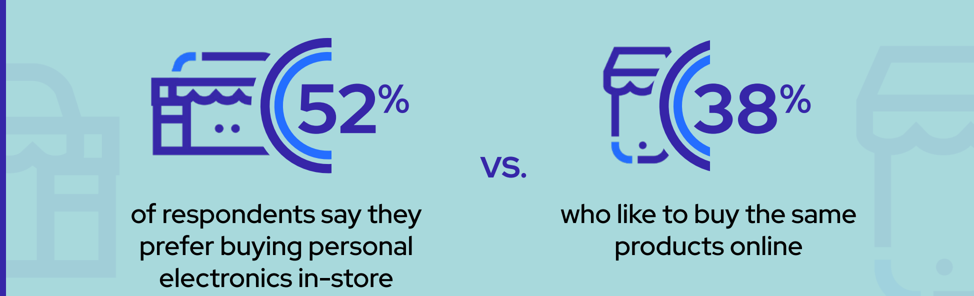
RESPONDING TO KEY CHALLENGES **WORKFORCE AND SUPPLY CHAINS**

One of the most urgent business concerns over the past year has been the exodus of millions of workers from the labor force, with frontline and public-facing retail and service workers serving as key protagonists of the trend. For example, consider that a record 4.5 million Americans quit their jobs in November 2021. In addition, the transformation of the labor force has also highlighted stark gender disparities: Federal data released in the first quarter of 2022 shows that there are nearly 2 million fewer women in the workforce than before the pandemic began.

As retailers grapple with these struggles, the Bureau of Labor Statistics predicts there will be a reshuffling of retail jobs over the coming decade. Thanks in part to the automation of certain tasks, the retail sector is projected to lose nearly 4% of its 2020 employment total over the course of this decade, with food-and-beverage stores and general merchandise stores expected to account for about 84% of all retail jobs lost. By comparison, motor vehicle and parts dealers, nonstore retailers, and apparel and accessories stores are all projected to gain employment over this period.

Some retailers are already responding to these immediate pressures by going on hiring sprees and rethinking their talent strategy. Walmart was one of the first big retailers to announce it would be hiring 50,000 workers to fill store and back-office roles during the first quarter of 2022, in addition to the 100,000 employees it added worldwide in the year ending January 2022.

The company's labor strategy extends to its transportation network, acknowledging the complex challenges facing retailers that rely on shipping and delivery. It announced pay raises for the nearly 12,000 truck drivers in its fleet in order to retain talent as the trucking industry faces a nationwide shortage of drivers. To that end, Walmart also launched a fleet development program is to train supply chain workers to earn a commercial driver's license within 12 weeks.



Source: Morning Consult

Shoring up supply chains

The supply chain woes that have overwhelmed producers and ports alike are forcing other retailers to build out entirely new functions—even collaborating with competitors in the process. American Eagle recently announced it wants to build out its logistics capabilities—going so far as to acquire two supply chain businesses—by creating a "frenemy network" that would allow competing retailers to use the same supply chain in order to reduce costs.

The company's effort is headed up by its chief supply chain officer, a leadership role that many companies have begun creating to address mounting inventory challenges. Like many other trends during the pandemic, companies didn't think such a specialized role would be necessary so soon, but they have realized that providing operational support while managing the supply and logistics of products is increasingly a key part of having a resilient supply chain.

MARKETPLACE MOVES TO WATCH

Here are five key trends we're watching closely as brands across the Marketplaces Industry invest for the future:

1. Physical stores acting as key nodes in fulfillment operations. We're already seeing this at retailers such as Target, which is investing in sortation centers where digital orders get packed by local stores to enable next-day shipping in dense markets.

2. Brands utilizing automation to help alleviate labor shortages. Increasingly, brands are facing robust competition for hourly wage employees. To address this, a Deloitte study shows that more than half of leaders who support growth strategies with additional investment believe that staff-free store locations will become commonplace within the next five years.

3. Ghost storefronts supporting e-commerce fulfillment activities. While these formerly took up space mostly in industrial areas, these storefronts will become commonplace within the urban core, allowing companies to build last-mile delivery capabilities.

4. Suburbs undergoing a rise in mixed-use communities with retail residences and restaurants. Following the residential migration instigated by the pandemic, localities outside the urban core will continue to see increasing rates of urbanization. In response, cities within the urban core will intensify their efforts to review zoning regulations to repurpose real estate.

5. Grocery stores fueling the growth of open-air shopping centers. As the essential service that never shut down during the pandemic, grocery stores take center stage in new developments. In order to address inequities, public-private partnerships will expand to address food deserts.

A LOOK AHEAD

If recent past is prologue, the convergence of the physical and digital marketplace experiences will continue to intensify—with physical stores accelerating their investments in strategies to enhance the customer experience. We've already seen signs in 2022 that the future of brick-and-mortar is robust: In the first quarter of the year, there were 2,500 physical stores announced to open, while only 200 closings were announced to close. ICSC forecasts that retail sales will increase by 5.9% in 2022, excluding automobile sales and gasoline. Furthermore, shopping centers have emerged from the pandemic in strong shape with visits expected to continue rebounding throughout the summer.*

For their part, consumers continue to be optimistic in the face of extraordinary pressures. In our Economic Event Sensitivity Survey, inflation was the predominant concern among adults, with 50% saying it had impacted their financial situation over the prior 24 months. While the pandemic won't be the last downturn the industry will face, the marketplaces and spaces we frequent have the fundamentals to withstand the next shock—and our communities and economies will be stronger because of it.

*Olvin.com predicts by July foot traffic to be down only 3% from April 2019 levels.