



United States | Q3 2021

Research

Retail Outlook

Retail recovery solidifies with demand returning to 2017 levels



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U.S. major market leasing fundamentals

Type	Total square feet	Total vacancy	Q3 2021 net absorption	Q3 2021 average rent	QOQ % change	YOY % change
General Retail	6,242,101,755	2.9%	15,497,043	\$21.57	0.5%	1.6%
Mall	906,868,194	7.2%	747,565	\$30.35	0.7%	1.4%
Power Center	804,147,736	5.6%	1,061,509	\$23.79	0.8%	2.1%
Neighborhood Center	2,975,120,534	7.4%	11,310,687	\$21.20	0.8%	2.5%
Strip Center	697,768,092	5.5%	3,372,910	\$20.04	0.8%	2.6%
Other	92,237,996	6.3%	(95,326)	\$25.72	0.8%	2.0%
Total Retail	11,727,418,575	4.7%	32,305,646	\$22.26	0.6%	1.9%

Major markets only

Executive summary

The retail recovery is in full swing with broad-based improvement across retail property types. Robust economic fundamentals help push retail performance even higher as we approach the end of 2021.

- Retail sales have tracked upward for the past three months, and foot traffic at shopping centers is hovering around 25% above 2020 levels.
- Pent-up demand and more free cash pushed average transaction value per shopper up 18% more than in 2019.
- Online sales did not increase year-over-year for Thanksgiving Day, Black Friday and Cyber Monday for the first time.
- Roughly 41,000 leases have been signed in the first half of 2021, representing 121 million square feet. Net absorption—or actual move-ins during the third quarter—surged 80.4% to 32.2 million square feet.
- This year, retailers will open more stores than they close for the first time since 2017. After a net loss of 6,573 stores last year, 900 U.S. retail chains will contribute to net-positive 4,361 new stores this year.
- Mall net absorption, which had been negative for six straight quarters, was positive in the third quarter at 0.7 million square feet.
- Smaller shopping centers saw a 70.3% surge in net absorption during the third quarter to 14.7 million square feet.



James Cook,
Director of U.S. Retail Research

Retail recovery is strong heading into the holiday season

Consumer spending on the rise despite dampening confidence

Despite an elevated inflation environment, concerns about the Omicron variant and heightened market volatility, the economy is booming. Projected 2021 GDP is 5.7%. The unemployment rate fell 40 basis points to 4.2%. Retail sales have tracked upward for the past three months, and foot traffic is hovering around 25% above 2020 levels.¹

Shoppers head back to stores over Thanksgiving weekend

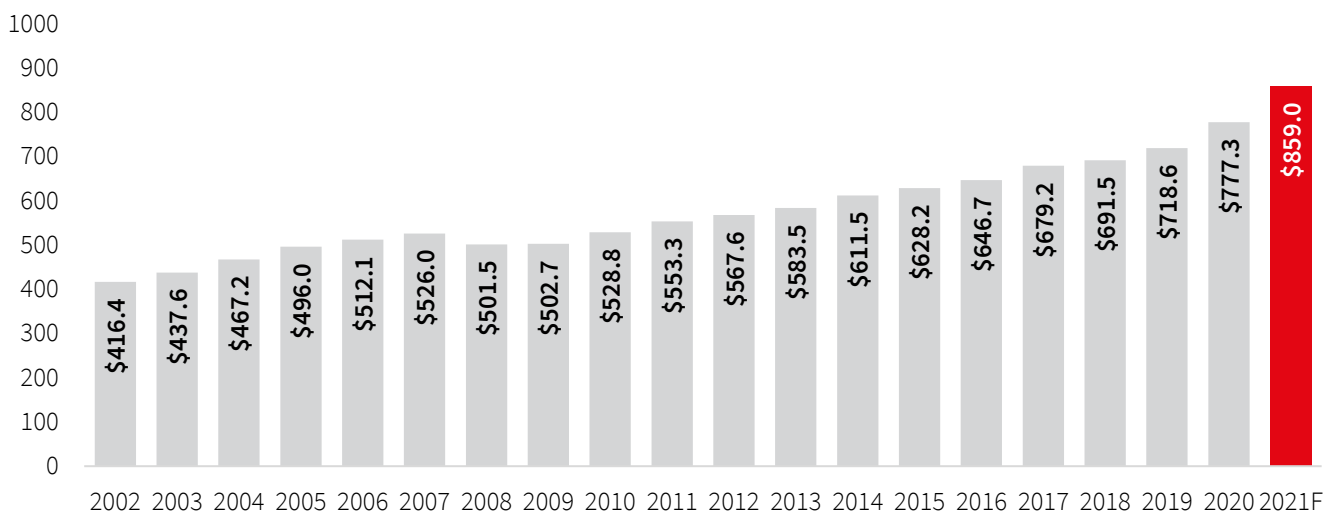
Black Friday performance underscored how much shoppers missed visiting stores in person for the holidays. Store traffic rose 61% this Black Friday compared to last year, although traffic was down 27% from 2019.² Mall of America saw nearly 100,000 shoppers by early afternoon Friday—more than double from last year.

Concerns over out-of-stock merchandise and shipping delays may have prompted more consumers to head to stores rather than risk online

order cancellations. In fact, out-of-stock messages are up 258% from November 2019.³ Pent-up demand and more free cash pushed average transaction value per shopper up 18% compared to Thanksgiving weekend 2019, which put overall sales at just 5% lower than two years ago. Sales surged 29.8% year-over-year through mid-afternoon on Black Friday, according to Mastercard SpendingPulse. Clothing and shoes—the most popular self-gifting category—saw particularly strong numbers, with footwear 86.1% higher and apparel 74.7% higher than Black Friday 2020.

Retail holiday sales are expected to hit roughly \$860 billion this year, which would represent a 10.5% increase over last year. Higher consumer good prices will push holiday sales figures as retailers limit promotions and sales compared to 2020. Discounts for electronics, appliances and sporting goods were about half as deep as they were last year, while apparel discounts were a few percentage points short of 2020 levels.

Holiday sales expected to increase up to 10.5% to \$859B—Retail holiday sales (\$B)



Source: NRF

¹Placer.ai

²RetailNext, Black Friday brought shoppers back to stores, November 2021

³Adobe, Consumers spent \$10.7 billion on Cyber Monday, \$109.8 billion so far this holiday season, November 2021



Black Friday e-commerce sales decline for the first time

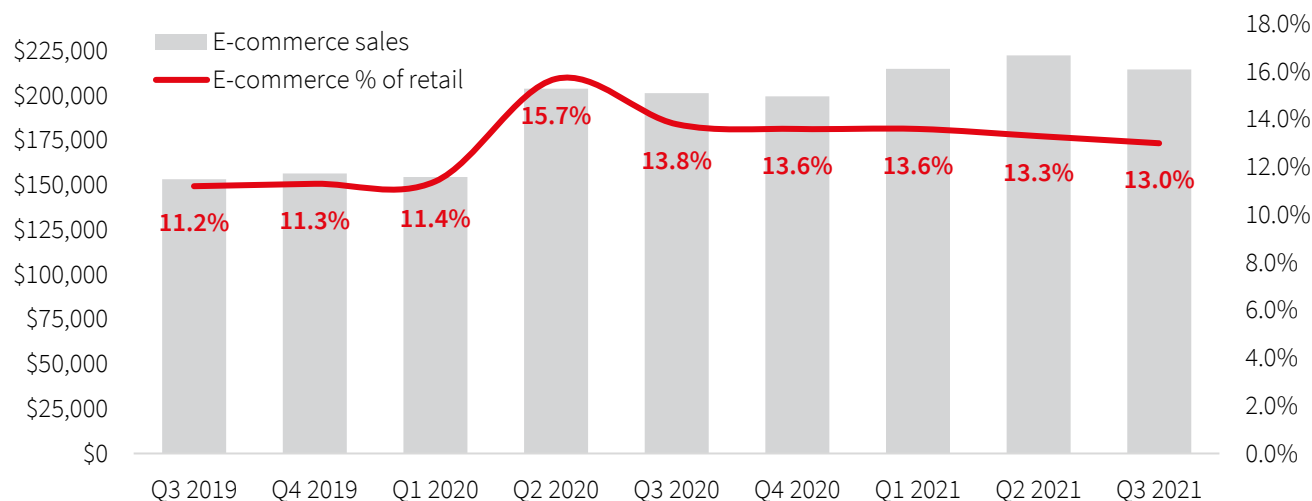
Black Friday online spending totaled \$8.9 billion, which was slightly lower than 2020's \$9 billion. This is the first drop in Black Friday online spending since Adobe started tracking this metric in 2012.⁴ Online sales on Thanksgiving Day were flat from 2020 at \$5.1 billion. Similarly, Cyber Monday online sales fell 1.4% to \$10.7 billion. Online sales are still expected to show strong numbers by the end of the year: so far this holiday season, consumers have spent \$89.9 billion online and are on track to hit \$207 billion.⁵

more protracted holiday shopping season than in prior years. There is also no doubt that consumers, tired of staying at home and looking forward to touching and seeing products in person, are opting to shop inside stores. More broadly, online sales fell 3.5% from the second to the third quarter according to the census. The share of e-commerce as a percentage of total sales has also steadily declined since Q2 2020 and now sits at 13.0% (from its peak of 15.7% at the start of the pandemic) as consumers gradually shift their purchases back to physical locations.

Since retailers offered holiday deals even earlier this year (some at the start of October), we may see a

E-commerce growth normalizes in 2021 after spike in Q2 2020

E-commerce sales remain elevated but began to taper at the end of 2020



Sources: U.S. Census, JLL Research

⁴ Reuters, U.S. Black Friday shoppers tapered online splurge, as some returned to stores, November 2021

⁵ ABCNews, Black Friday online sales dip for 1st time, to \$8.9 billion, Adobe finds, November 2021

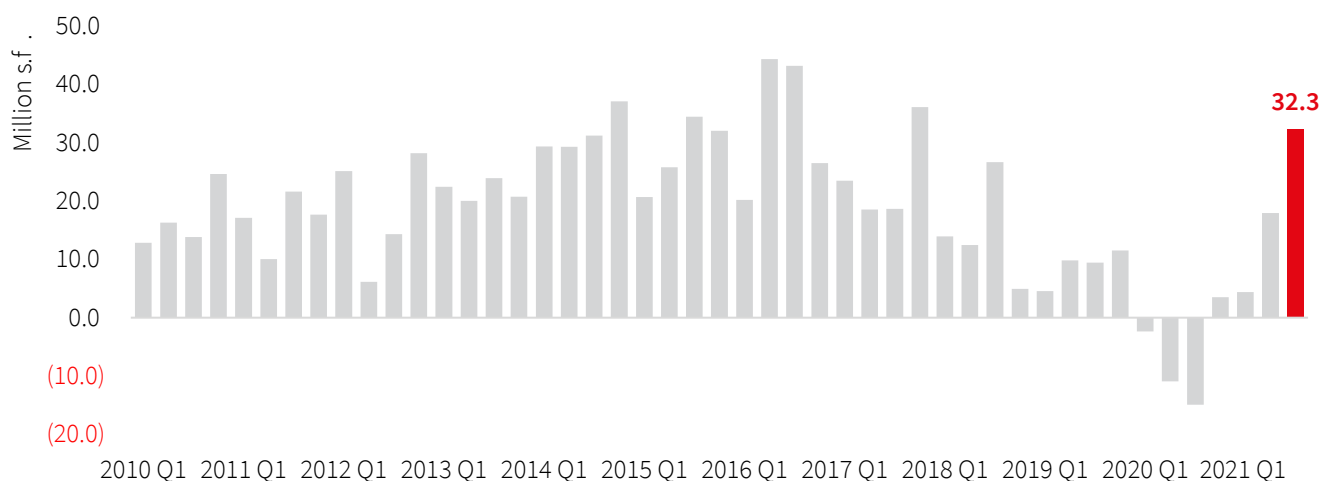


Demand for retail space surges

Leasing activity continues to gain steam, with net absorption showing the highest numbers since 2017. Roughly 20,000 leases comprising 60 million square feet were signed in the third quarter. Net absorption—or actual move-ins during the third quarter—surged 80.4% to 32.2 million square feet. Gains in net absorption continue to be driven by strong demand for general/freestanding retail, neighborhood and strip centers. Smaller store sizes are also driving demand. The average footprint for signed leases is currently below 3,100 square feet. Retailers like Macy's, Target and Burlington are focusing growth on smaller, more efficient stores.

Vacancy dropped 30 basis points to 4.7%, with all major retail property types showing compression. New retail supply remains low at 3.2 million square feet. Most under-construction retail space is within mixed-use, experiential projects. Retail rents are tracking almost 2.0% higher than they were a year ago, but the growth is nuanced. Strip and neighborhood centers have seen the strongest rent growth among retail property types. Urban and coastal markets like New York, Boston and Los Angeles are still seeing considerably weaker recovery than southern markets with strong population growth like Atlanta, Nashville and Phoenix.

Q3 retail net absorption hits highest level in years—U.S. retail net absorption (m.s.f.)



Sources: CoStar, JLL Research

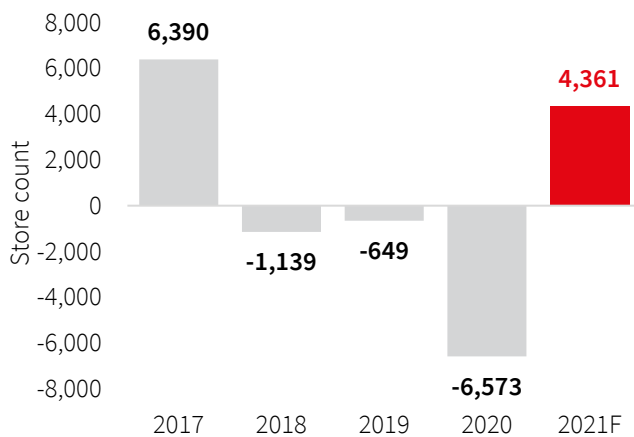
⁶CoStar, Retail National Report, October 2021

The U.S. will gain more than 4,000 new stores this year

This year, retailers will open more stores than they close for the first time since 2017. After seeing a net loss of 6,573 stores last year, 900 U.S. retail chains will contribute to net-positive 4,361 store openings this year.⁷

- Dick's Sporting Goods is opening new concepts including House of Sport, Public Lands and Golf Galaxy. These experiential stores have batting cages, rock-climbing walls and putting greens.
- Levi Strauss plans to open 100 “next-generation” stores in the U.S. in the next three to five years. These stores will be smaller and have tailor shops where consumers can customize their apparel. They will also have mobile checkout and use AI to stock merchandise according to local tastes.
- Untuckit, which started as a pure-play online retailer and never planned to open brick-and-mortar stores, now has 88 physical locations with plans for 150 stores in the next two to three years.
- Footwear and apparel retailer Allbirds, also originally an online-only retailer, reported that it may be opening hundreds of new locations.

2021 will see net-positive growth in retail stores for the first time since 2017—Net change in stores for 945 U.S. chains



Source: *WSJ*

⁷ IHL, Retail's shakeout & growth story, August 2021





Total United States

Retail subtype	Definition	Examples
General Retail	Consists of single-tenant, freestanding, general-purpose commercial buildings with parking	Drugstores, some groceries, streetfront urban retail stores
Malls	Includes Lifestyle Centers, Regional Malls and Super-regional Malls	Primarily anchored by mass merchants, fashion and department stores
Power Centers	Consists of several freestanding anchors with minimal small tenants, 250,000–600,000 s.f.	Primarily anchored by big-box tenants and discount supercenters
Shopping Centers	Includes Community Centers, Neighborhood Centers and Strip Centers	Primarily anchored by groceries and local services
Specialty Centers	Consists of the combined retail center types of Airport Retail, Outlet Center and Theme/Festival Center	Primarily anchored by manufacturers' and retailers' outlets
Total Retail	All retail building types in both single-tenant and multitenant buildings, including owner-occupied buildings	All retail

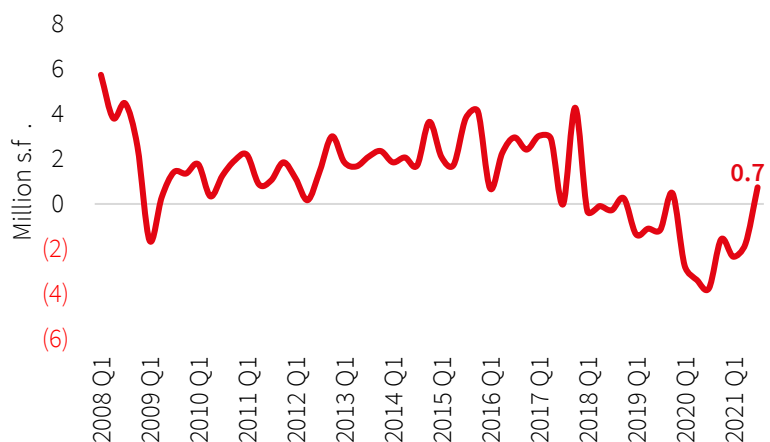
Owners tap experiential tenants to boost mall appeal

Mall fundamentals—U.S.

Q3 2021 net absorption	0.8 million s.f.
Vacancy	7.2%
NNN rent	\$30.35
Under construction	3.9 million s.f.
Deliveries	-0.9 million s.f.

Source: CoStar *major markets

Mall net absorption turns positive for the first time since 2019



Sources: CoStar, JLL Research

Mall absorption turns positive

Malls are finally turning the corner. Net absorption, which had been negative for six straight quarters, was positive in Q3 at 0.7 million square feet. Overall mall vacancy fell 20 basis points to 7.2% during the quarter, although there is a large discrepancy between the performance of Class A and lifestyle centers compared to lower-rated regional malls.

Q3 2021 Mall move-in highlights

	Lifestyle centers	Regional malls	Super-regional malls
Big-box tenants	IKEA, PGA Superstore, PetSmart, Spirit Halloween	Regal Cinemas, Hobby Lobby, Golf Galaxy	Surge Adventure Park, Planet Fitness, Aldi
Smaller tenants	Plato's Closet, Tropical Smoothie, Madison Reed, Stretch Zone	MOD Pizza, LifeStream Blood Bank, Coldwell Banker	StretchLab, Warby Parker, European Wax Center

Source: CoStar

Owners look to experiential tenants and alternate uses to draw consumers

As retailers look to smaller stores and flexible lease terms, there is a lack of demand for large, anchor spaces. There are approximately 750 anchor vacancies in the U.S., predominantly in B and C malls.⁸ Mall owners and developers continue to seek creative ways to fill vacant anchors or redevelop the property into new uses.

- CBL Properties replaced a former anchor department store in Greensburg, Pennsylvania, with a casino to boost the property's entertainment, dining and shopping offerings.⁹
- Mall of America is opening an 18,000-square-foot esports venue in 2022 that will include a gaming lounge with food and beverage and seating for a studio audience to watch livestreamed esports games.¹⁰
- Toys 'R' Us is opening a two-level, 20,000-square-foot flagship at the American Dream megamall in New Jersey. In addition to a variety of toy brands and gaming merchandise, the store will offer experiences for kids, including a two-story slide, a cafe and an ice cream shop.¹¹

- The Mall at Stonecrest in Georgia was partially redeveloped to include SeaQuest. With 1,200 species of animals from five continents, SeaQuest offers exhibits varying from stingray tanks to hopping wallabies. The aquarium plans to become a frequent school trip spot for local children, and teachers get free admission.¹²

Mall owners and developers also continue to redevelop properties into mixed-use projects:

- Lafayette Square Mall in Indianapolis is being transformed into a \$200 million mixed-used development called Window to the World. It will include a renovation of the current mall interior, 200 multifamily rental units, a boutique hotel, new office and event space and new stores.¹³
- Simon Property recently opened a 174-room AC Hotel at the Sawgrass Mills Mall in Sunrise, Florida.¹⁴
- Brookfield Properties plans to redevelop the Stonestown Galleria mall in San Francisco into a mixed-use development. The new project will have 3,000 housing units, roughly six acres of parks and open space and a main street lined with restaurants and small shops.¹⁵

⁸ Deloitte Insights, The future of shopping: Creating customer value with retail real estate, October 2021

⁹ BusinessWire, CBL Properties celebrates opening of Live! Casino Pittsburgh at Westmoreland Mall outside of Pittsburgh, Pennsylvania, November 2020

¹⁰ Forbes, Esports arena and studio to open at Mall of America, October 2021

¹¹ CNBC, Toys R Us is opening a flagship store at American Dream later this month, marking its return to malls, December 2020

¹² AJC, "Creating an experience": Stonecrest mall's new aquarium aims to bolster tourism, November 2020

¹³ Inside Indiana Business, "Window to the World" aims to transform mall, November 2021

¹⁴ Bizjournals, AC Hotel Fort Lauderdale Sawgrass Mills/Sunrise now open at Sawgrass Mills, April 2021

¹⁵ CoStar, Retail National Report, October 2021

Big-box stability bodes well for sustained power center recovery

Power center fundamentals—U.S.

Q3 2021 net absorption 1.1 million s.f.

Vacancy 5.6%

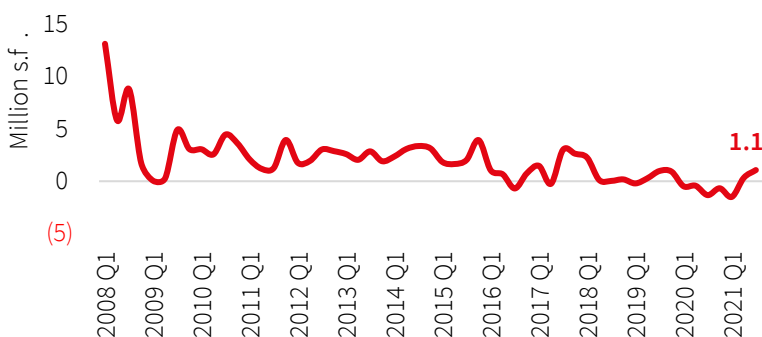
NNN rent \$23.79

Under construction 1.4 million s.f.

Deliveries 0.1 million s.f.

Source: CoStar *major markets

Power center absorption grows to 1.1 million s.f.



Sources: CoStar, JLL Research

Big-box demand and sales lift power centers

Power centers saw their second consecutive quarter of positive net absorption at 1.1 million square feet. Vacancy compressed 10 basis points to 5.6% and rents are inching upward.

Big-box retailers continue to see strong year-over-year sales growth:

- Mass merchandisers saw a 17.8% gain on two-year stacked comps (compared to 2019).
- Home improvement sales remain strong, with year-over-year comp growth of 20.6% and two-year stacked comps of 30.7%.

- Home furnishings are also seeing growth, with average sales comps of 10.3%. Williams-Sonoma, in particular, saw strong comp gains of 29.8%.
- Sporting goods saw a 10.8% increase in year-over-year comparable sales and a 43% surge in two-year stacked comps.

Solid performance from major big-box tenants increases the stability of power center performance. In the third quarter, power centers saw notable move-ins from discounters like Five Below and Dollar Tree, home furnishing tenants like Ashley HomeStore and fitness tenants like Planet Fitness and Eos Fitness.

Q3 2021 Power Center select move-ins

Category

Fitness/Wellness

Beauty

Discount/Off-Price

Home Furnishings

Grocery

Retailers

Planet Fitness, StretchLab, F45

European Wax Center, ULTA, Sephora

Five Below, Big Lots, Dollar Tree

Ashley HomeStore, At Home

Aldi, Trader Joe's

Source: CoStar



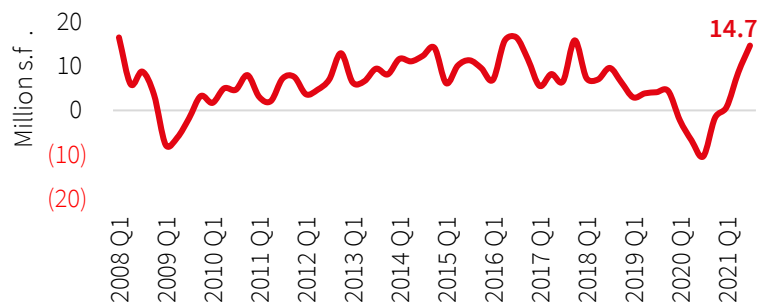
Discounters and fitness tenants help open-air demand to soar

Shopping center fundamentals—U.S.

Q3 2021 net absorption	14.7 million s.f.
Vacancy	6.5%
NNN rent	\$20.62
Under construction	4.3 million s.f.
Deliveries	0.9 million s.f.

Source: CoStar *major markets

Shopping center absorption surges to 14.7 million s.f.



Sources: CoStar, JLL Research

Absorption soars for small shopping centers in Q3

Smaller shopping centers saw a 70.3% surge in net absorption during the third quarter to 14.7 million square feet. Vacancy compressed 40 basis points from the second quarter to 6.5%. Rents inched up 0.8% to \$20.62. Move-ins during the quarter consisted of a variety of small-space tenants,

including fitness tenants, which took more than 0.7 million square feet of space. Community center move-ins include healthcare and fitness tenants and QSRs. Neighborhood center move-ins include discounters, grocery stores and fitness tenants. Strip center move-ins include mom-and-pop businesses, insurance companies and small fitness centers.

Q3 2021 Smaller shopping center move-in highlights

Big-box tenants

Neighborhood centers

Chai Urgent Care, Look Cinemas, Ross Dress for Less, Planet Fitness

Community centers

H Mart, At Home, Urban Air Adventure Park, PGA Tour Superstore, Lidl

Strip centers

MegaMart, MOM's Organic Market, Lumber Liquidators

Smaller tenants

T-Mobile, Stretch Zone, Pet Supplies Plus, Anytime Fitness

Club Pilates, Plato's Closet, Raising Cane's

HotWorx, Stretch Lab, Aldi, dogtopia

Source: CoStar



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