United States | 2021

Research

Playing better than normal

Retail

Vision 2021

Welcome to better

At JLL Research, our mission is to generate insights that empower our people and our clients **to shape the future of real estate for a better world**. We are focused on answering the hardest questions about real estate, our markets, and our industry.

Following a year of unprecedented disruption, the one question we receive most frequently is "when will things get back to normal?"

After a year of research, surveys, interviews and analysis, we can state with confidence that we will never return to what most people considered "normal" at the beginning of 2020. The world has evolved and accelerated in ways that will alter the course of our future and there is no going back.

However, this dramatic and forced change can be interpreted as an opportunity for both commercial real estate investors and occupiers. Although many common situations were considered "'normal" in early 2020, they were far from ideal. Consider the following conditions of the office sector at the start of 2020:

- It was normal for many people to work 50 hours per week in offices that were loud, dense, impersonal and unproductive.
- It was normal for employees to commute over 90 minutes each way, every day, into big cities to work in-person, to be able to afford a home with sufficient space.
- It was normal for professionals to cram into 150 square feet of desk space, with no way to maintain privacy, health or wellness.
- It was normal for many people to show up to work when sick, under pressure to be present and to appear productive.
- And from the company perspective, it was normal for many to sign 10- or 15-year leases and spend significant sums of capital upfront, even when their headcount and business needs were uncertain beyond a few quarters.

Clearly, these office conditions were normal but not ideal in the pre-COVID-19 world. Furthermore, across other segments of commercial real estate, normal conditions left much to be desired.

- In retail, it was normal for malls to subsidize large and aging anchor department stores, while relying on smaller inline retailers to cover the majority of costs.
- In the industrial world, it was normal to locate massive logistics centers out of the range of many large population centers, despite rising demand for urban last-mile and last-minute delivery.
- In the residential space, it was normal for cities to encourage the surplus development of high-end condominiums and rental units, while providing nowhere near the necessary level of affordable housing.

These conditions, and many more, suggest that there is great potential to embrace necessary change and to improve the way we live, work, shop and play in the future. We also recognize that many of the changes we are recommending are the result of an evolving economy, one in which rapid urbanization and technological advancements of the past decade have made it possible to envision what could be next.

> So, let's not try to get back to normal. **Let's work together to achieve conditions that are better than normal in 2021**, in every aspect of how we live, work, and play.

The following report provides specific recommendations from JLL's leaders on how we can all do better—across industries, property types and regions—in the year ahead.

Christian Beaudoin
Senior Director,
Research

Playing
better in 2021: Retail

| Convenience is everything
| Make malls matter again
| Take the long view

James Cook
Senior Director,
Retail Research

Convenience is everything:

The coronavirus has accelerated consumers’ preferences for the convenience of online ordering and curbside pickup.

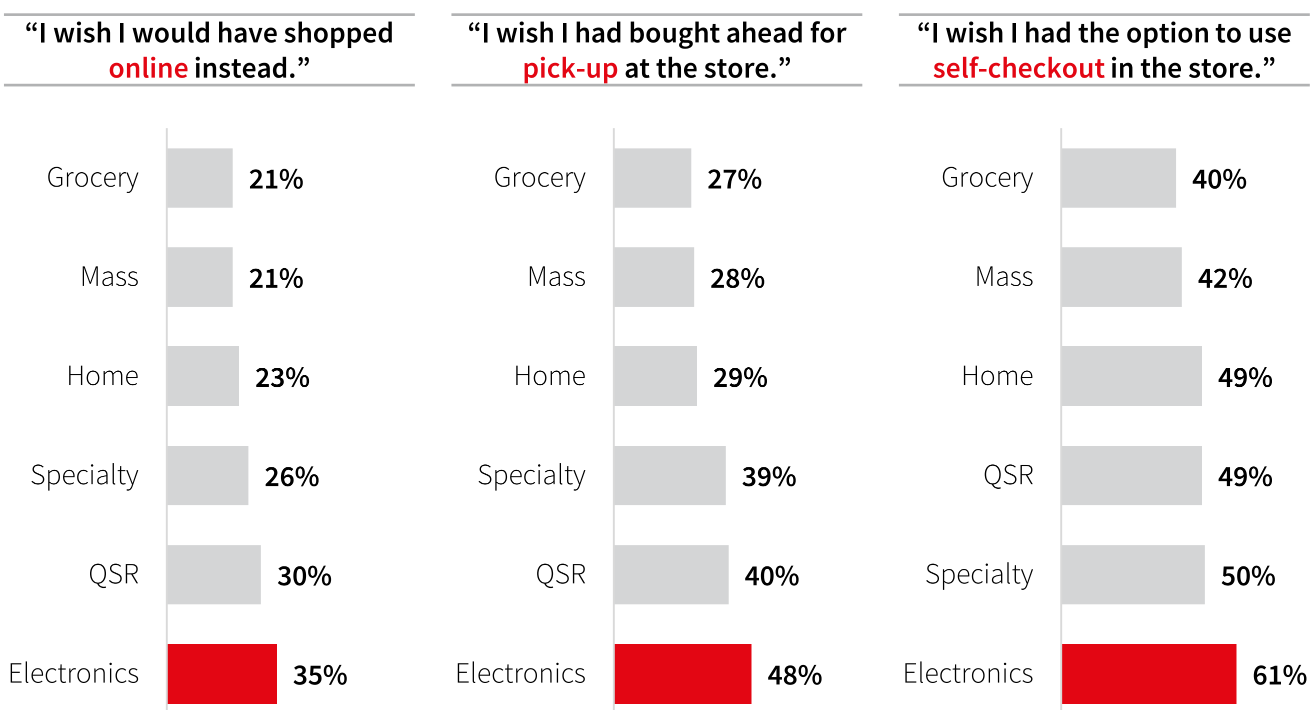
Long before COVID-19, the retail sector was transforming. Shifts in demographics, evolving consumer preferences, the erosion of the mid-market buyer and highly leveraged retailers created an environment with little margin for error and an increasing probability of closures or bankruptcies. In 2019, before the word “pandemic” was commonly used, retailers closed 9,300 stores. That represented a 60 percent increase from the 5,800 stores closed in 2018. As perhaps another 15,000 permanent store closures are recorded in 2020, consumers are speaking through their purchases. Their message is that convenience and safety are among their top priorities.

With most retailers pivoting toward improving omnichannel strategies to counteract limited in-store shopping, online ordering has become easier and shoppers now have more reliable options between speedy delivery, in-store pickup and curbside pickup. **This increased convenience will be critical in 2021**, as even shoppers who have purchased goods in person have expressed concern and consideration for alternate methods.

It’s not just retailers that are focused on improving ease of access and convenience. Quick-service-restaurants (QSRs) are also seeking real estate with convenient drive-through capabilities. Shake Shack and Chipotle, two QSRs that previously did not operate with drive-through lanes, are implementing this strategy in future designs for added convenience for consumers.

In 2019, the retail and restaurant brands that provided the most interactive and engaging experience led the market. In 2020, it was those that provided safety and ease of purchase. In 2021, convenience will remain as the key to better performance.

Many wish they had chosen alternative fulfillment instead of going into the store on their last trip.



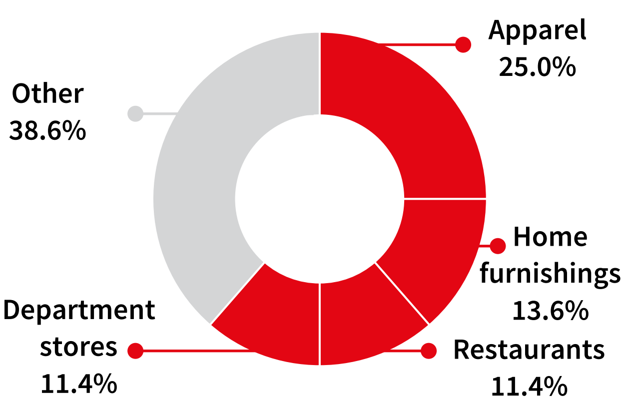
Sources: Big Red Rooster - a JLL company

Make malls matter again: As traditional retail vacancies increase, alternative uses including office, industrial, residential and medical will be needed to restore relevance.

With the continued focus on convenience across all elements of retail, malls also have an opportunity to improve the shopper experience. In a study conducted by Big Red Rooster, 70 percent of "pick-up" shoppers stated that they would prefer one single pick-up location for multiple online orders. Mall owners could benefit significantly from this offering while providing shoppers with a more convenient experience. Centralized pick-up areas for online orders from multiple retailers within a shopping center could be a compelling enhancement to attract and retain customers.

However, most malls will need to do much more than offer one-stop pick-up locations to thrive in 2021. The severity of the retail downturn will require creative thinking beyond the selling of physical goods. This is where the idea of "mixed-use" can truly come to life. Currently, apparel and accessory stores account for 57 percent of total mall space. Not only are these stores the most likely to go bankrupt (see chart below), but they also represent the greatest proportion of likely closures in the coming years.

Percent of major 2020 bankruptcies



Sources: JLL Research

While the situation may seem dire for many Class B and Class C malls, owners and operators have an incredible opportunity to rethink their tenant mix to align with neighborhood businesses and community needs. Malls still provide the necessary benefits of open space, convenient locations and ample parking. Such features could prove attractive for some of the following alternative uses.

Alternative-use opportunities for malls

Office	Corporate offices can benefit from well-located malls in densely populated areas with large parking lots.
Industrial	Fulfillment and distribution centers can utilize the connectivity to highways and main arteries that mall properties have, in addition to the proximity of consumers for last-mile delivery.
Residential	Residential conversions can serve nearby populations, especially in metros with growing housing shortages.
Education	Mall properties can serve as college satellite campuses, community colleges and trade schools to capitalize on nearby college-aged populations.
Medical	Medical users, particularly urgent care facilities, have continued to expand during the pandemic, often backfilling vacant mall space to capitalize on existing density and frequently trafficked destinations.

While complete conversions may be the optimal outcome for some mall locations, for others a more targeted approach of selective space conversions may be the answer. In any case, detailed consideration of the local resident population will be required.

As noted in the Working Better section of this report, employees are seeking shorter commutes and mixed-use benefits as well. Malls could serve the demand for 15-minute cities in the near future, with retail centers linked to business hubs and affordable apartments, all within a ready-made, mixed-use district.

Take the long view: Urban retail demand is expected to return at the end of 2021.

The COVID-19 pandemic has demonstrated just how connected our world is. In the commercial real estate space, few elements are as connected as urban retail demand, office occupancy rates and global tourism volumes.

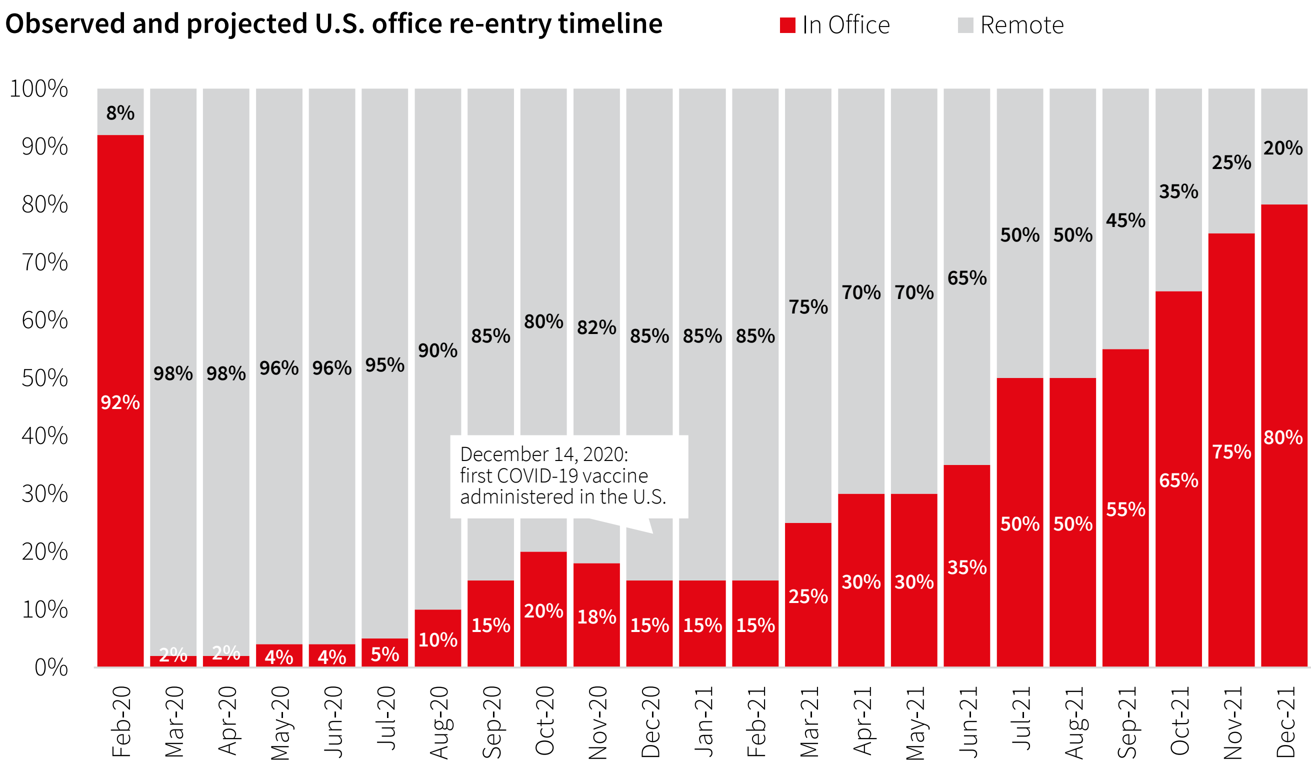
Without office users and without large-scale tourism, urban retail has experienced an unprecedented challenge in 2020. However, there is cause for optimism in 2021. **As people begin to increasingly conduct more "normal" activities starting in mid-2021 (in both work and play), urban retailers must be prepared for the return of the in-person consumer.**

In terms of office workers, JLL predicts that by the end of 2021, 80 percent of office workers will have returned to the office following the release of a vaccine. The chart below illustrates the most likely scenario for office occupancy rates, based on over 2,000 tenant responses.

Beyond the office-using consumer, when tourism returns, demand for prime urban retail corridors that appeal particularly to out-of-towners (e.g., Times Square, Lincoln Road and Michigan Avenue) will also return. Notably, these districts are primarily outdoor experiences. With tourists potentially maintaining caution for certain indoor activities, outdoor experiences will remain in-demand. Sunlight, fresh air and walkability contribute to health and well-being.

When social distancing is less necessary and retailers can operate at full capacity, demand will return for retailers currently struggling to operate, including dine-in restaurants, entertainment concepts and movie theaters, and fitness centers. We expect that such uses will see a full recovery and an incredible level of pent-up demand. However, this rebound is not possible until a vaccine is widely available and effectively distributed.

Observed and projected U.S. office re-entry timeline



Sources: JLL Strategic Consulting Group survey of Fortune 500 office users, *WSJ*

***Wall Street Journal*:**
"Do you have a date in mind for when your workforce returns to the office?"

Netflix CEO Reed Hastings:
"Probably six months after a vaccine is available, and we can get a majority of people vaccinated, it's back in the office."

Government restrictions, vaccine development and school reopenings will be important considerations in office re-entry.

Urban and suburban timeline for retail re-entry

Present	Near future Late Winter/Spring	Longer term (widespread vaccine) Fall/Early Winter
Suburban timeline		
• Office workers at home in the suburbs • Shoppers feel more comfortable in open spaces • Open-air centers see strong foot traffic and spending	• Retailer demand for suburban retail space grows	• Suburban areas remain an ideal location for retailers even as the demand for urban living returns
Urban CBD timeline		
• Office workers not in their urban offices • CBD retail struggles without daytime population • Without tourists, prime urban retail corridors suffer too	• Retailer demand for new space returns slowly as people return to the office • Prime urban retail corridors near residential neighborhoods will see demand return sooner than those near CBDs	• Workers return to offices running at full capacity and CBD retail recovers • Prime urban retail corridors bounce back as domestic and international tourists return

As illustrated in the graphic above, we are not yet in a position to declare victory for urban retail. However, positive signs for the market, which have been so difficult to find in 2020, are now beginning to emerge for 2021.

For more information, please contact:

Christian Beaudoin
Senior Director of Research
Christian.Beaudoin@am.jll.com

Scott Homa
Senior Director of Research,
Property Sectors
Scott.Homa@am.jll.com

Lauro Ferroni
Senior Director of Research,
Capital Markets
Lauro.Ferroni@am.jll.com

Julia Georgules
Senior Director of Research,
East & Canada Markets
Julia.Georgules@am.jll.com

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JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.