

# Market Outlook Construction Forum

## Summary

as of November 20, 2020

### Presenters

- John Crombie, Executive Managing Director, Cushman & Wakefield

**\*\*\*The data below pertains specifically to the Canadian Retail market\*\*\***

### The Great Accelerator for retail change, Cushman & Wakefield

- **home resales set record highs; market rally may lose momentum this winter in northern markets**
- US economy was hit hardest in Q2, falling 15% below its pre-pandemic value
- current consensus is that economic levels (GDP) should return to pre pandemic levels in Q4 2021
- total holiday spending this year is expected to be 30% lower than 2019
- commercial rent has declined by 2% y/y in Q2
- tensions between landlords and retailers are mounting
- in the retail sectors, malls have been impacted the most (28.9% decline in net operating income)
- rent received has been improving, however, deferrals are still up
- retail sector has shrunk by 6.2% which is more than double the drop of the 2009 crisis
- e-commerce has increased by 20.7% since last year, **and is expected to level at 35% for the sector**
- 83% of global consumers state they will continue to shop online
- consumer spending will be focused on home care: less focus on travel and leisure, fast fashion, and urban real estate
- regional retail centers have been hit the hardest (-33%), convenience hasn't been hit that hard (-7%)
- curbside pickup is expected to grow and enhanced in the future
- **retailers are adapting space for enhanced customer experience and e-commerce fulfilment**
- urban retail has suffered due to the reduction in day-time urban populations
- major declines experienced specifically in the restaurant, gym, and theater sectors
- new vacancies currently being filled by pop-up retailers

### Future Agenda

- AEI: Engineering Perspective
- DIRTT: Modular and Furniture Solutions
- Subcontractor feedback
- **Health Networks: Measuring Total Benefit in the Built Environment**



# COVID-19: The Great Accelerator for Retail Change

November 20<sup>th</sup>, 2020

Prepared for:

## Vermeulens

Market Outlook Construction Forum

Prepared by:

John G. Crombie  
Executive Managing Director,  
Retail Services, Canada  
Cushman & Wakefield ULC  
[John.Crombie@cushwake.com](mailto:John.Crombie@cushwake.com)  
M: +1 416 471-5416

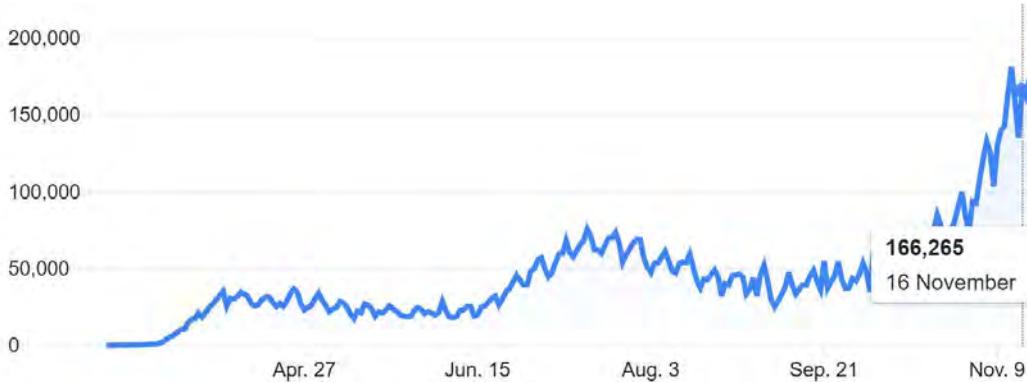
# COVID-19: The Great Accelerator for Retail Change

Economic Impact of COVID-19

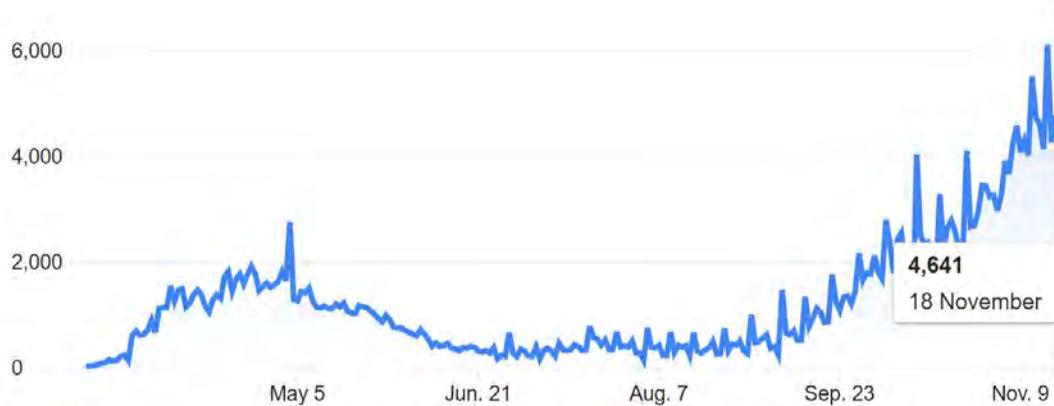


# COVID-19 IMPACT ON RETAIL

## CONFIRMED COVID-19 CASES IN CANADA & US



UNITED STATES



CANADA

Source: John Hopkins University

# COVID-19 IMPACT ON RETAIL

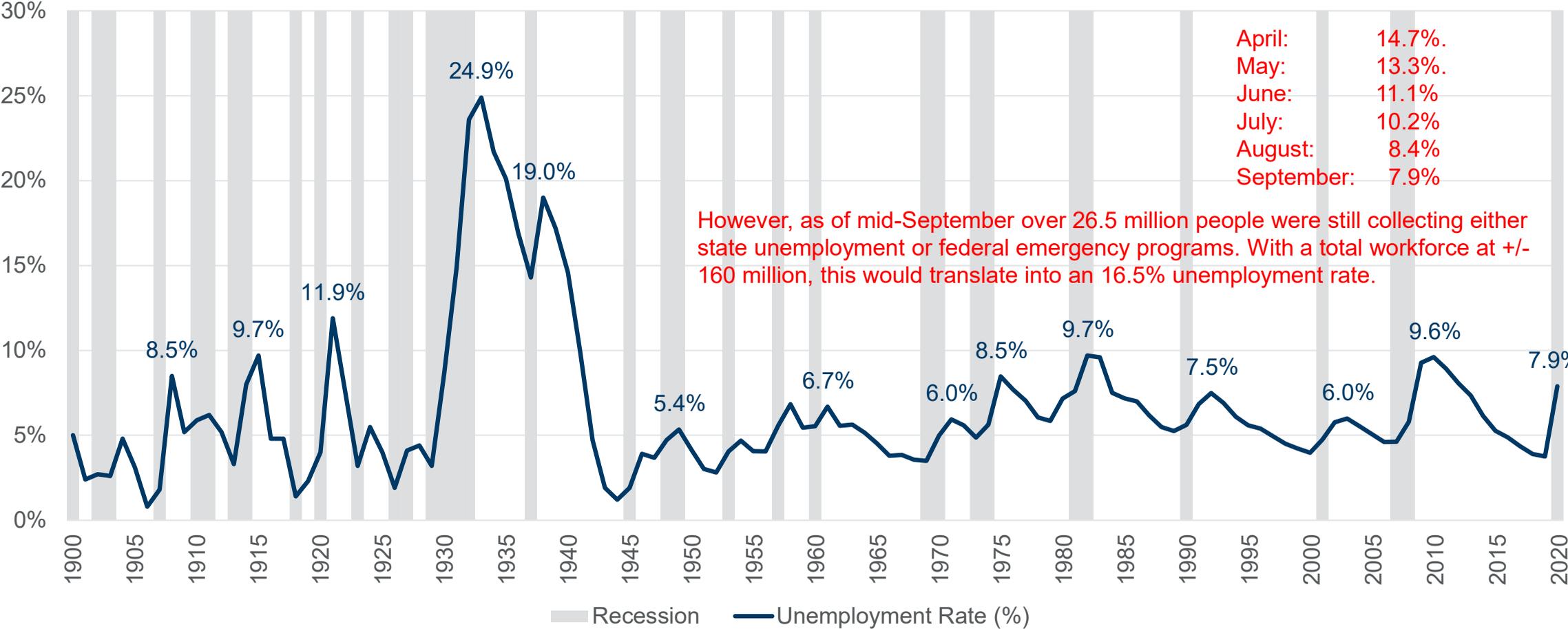
CANADIAN UNEMPLOYMENT RATE: 10.2% IN AUGUST



Source: Statistics Canada, Oxford Economics

# COVID-19 IMPACT ON RETAIL

US UNEMPLOYMENT RATE: 7.9% IN SEPTEMBER



Source: BLS, BOC. Note: Trough figures do not match the prior slide because the above data are annual (pre-1948 data are only available on an annual basis).

# COVID-19 IMPACT ON RETAIL

## HOME RESALES IN CANADA SURGES

Thousand units, seasonally adjusted and annualized

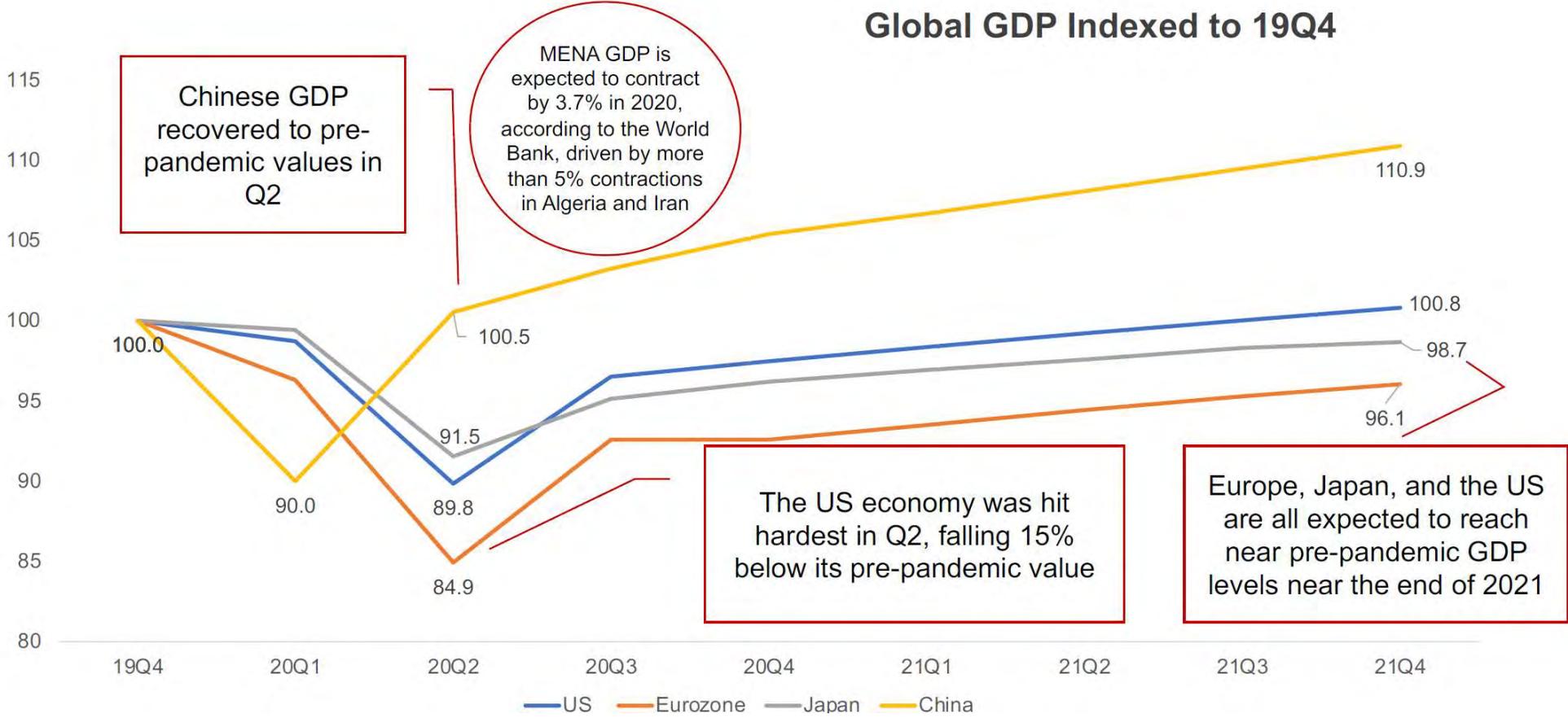


- Home resales set a record high — again
- Large influx of sellers helped ‘unlock’ pent-up demand
- Prices getting hotter fast
- Market rally likely to lose momentum this winter

Source: RBC Research, CREA

# COVID-19 IMPACT ON RETAIL

OBSERVATION: ECONOMIC RECOVERY BEGINS TO APPEAR ON THE HORIZON



Source: Coresight Research, Bloomberg Consensus

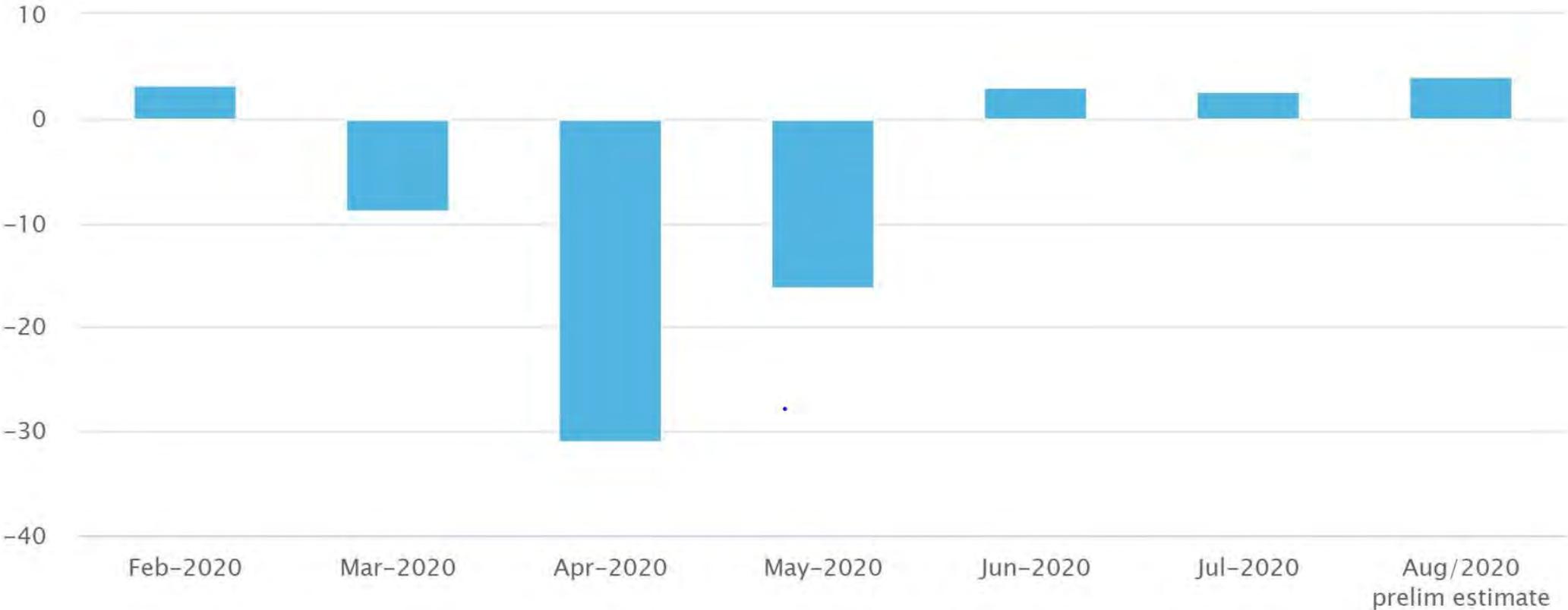
# COVID-19: The Great Accelerator for Retail Change

Retail Spending



# COVID-19 IMPACT ON RETAIL

CANADIAN MONTHLY SALES (YOY % CHANGE): RECOVERY CONTINUES

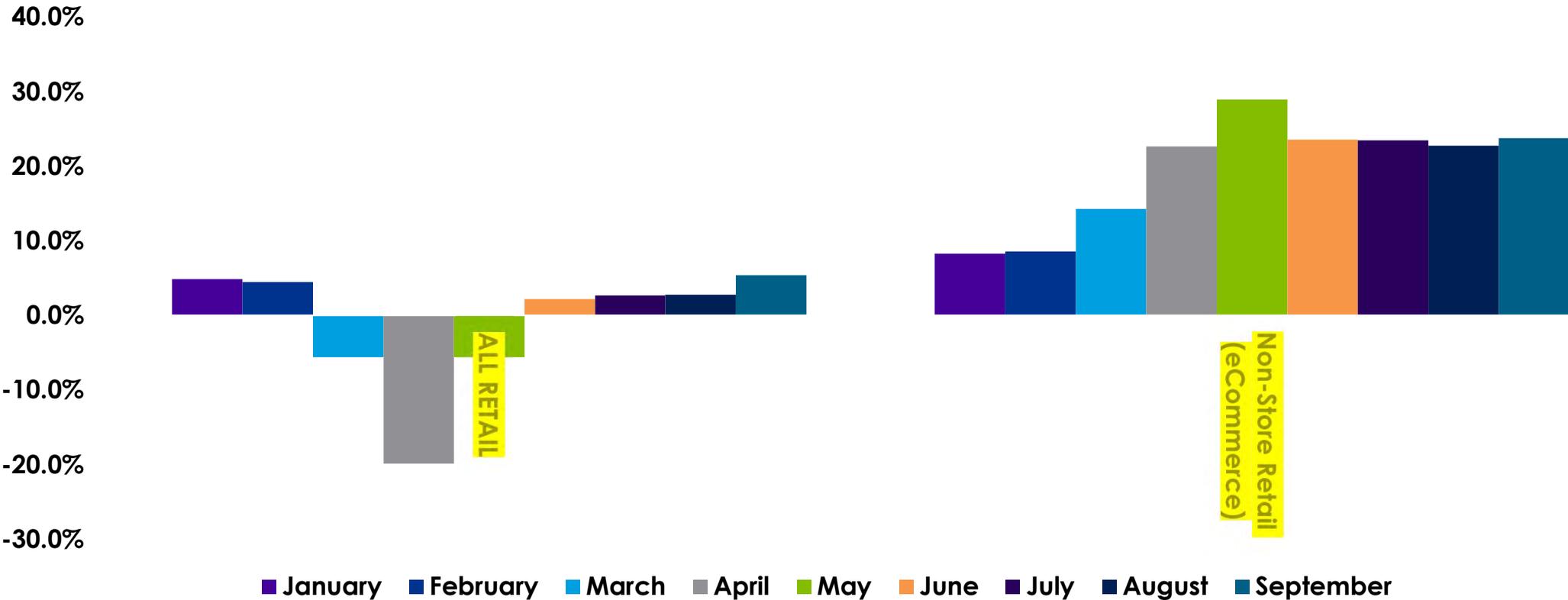


Source: Statistics Canada, RBC

# COVID-19 IMPACT ON RETAIL

US MONTHLY SALES (YOY % CHANGE): RECOVERY CONTINUES

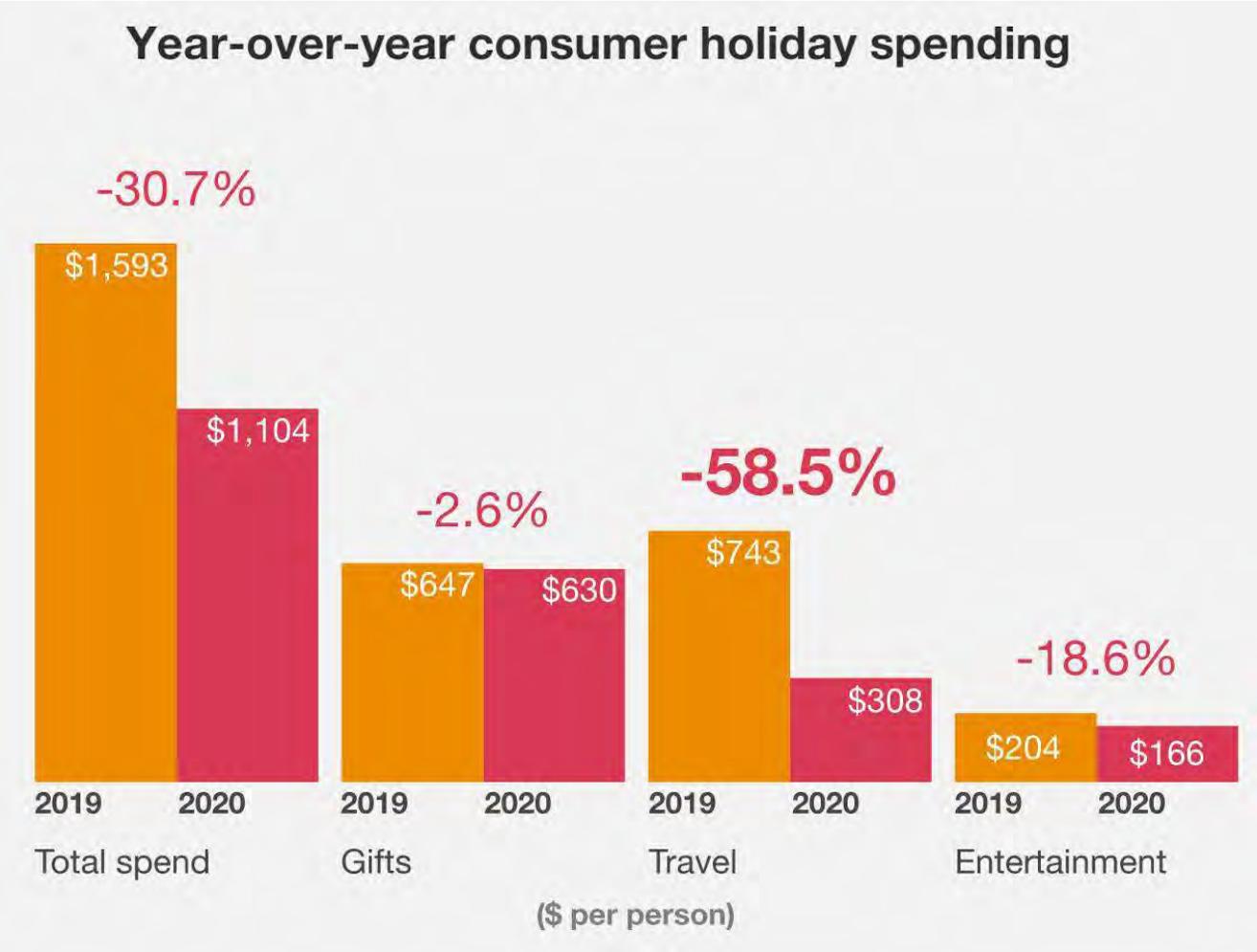
Year-Over-Year Retail Sales by Category (Seasonally Adjusted)



Source: Commerce Department, Cushman & Wakefield Research

# COVID-19 IMPACT ON RETAIL

PREDICTION: HOLIDAY SPENDING IN CANADA WILL DECLINE FROM 2019



Source: PWC

Compared to the 2019 holiday season, do you think you will...?



# COVID-19 IMPACT ON RETAIL

PREDICTION: U.S. CHRISTMAS SALES DEPENDS UPON WEALTHY SPLURGE

## Holiday spending will hinge on how much the rich splurge and the poor cut back, Deloitte says

### KEY POINTS

- According to Deloitte, holiday retail sales this year should rise between 1% and 1.5%, amounting to between \$1.147 trillion and \$1.152 trillion during the November-to-January time frame.
- That's compared with growth of 4.1% in 2019, when sales were nearly \$1.14 trillion.
- "This year, one of two holiday scenarios will play out," said Rod Sides, a vice chairman at Deloitte.

Source: Deloitte, CNBC (September 15<sup>th</sup> 2020)

# COVID-19: The Great Accelerator for Retail Change

Commercial Rents



# COVID-19 IMPACT ON RETAIL

## COMMERCIAL RENTS IN CANADA DECLINE IN 2Q 2020



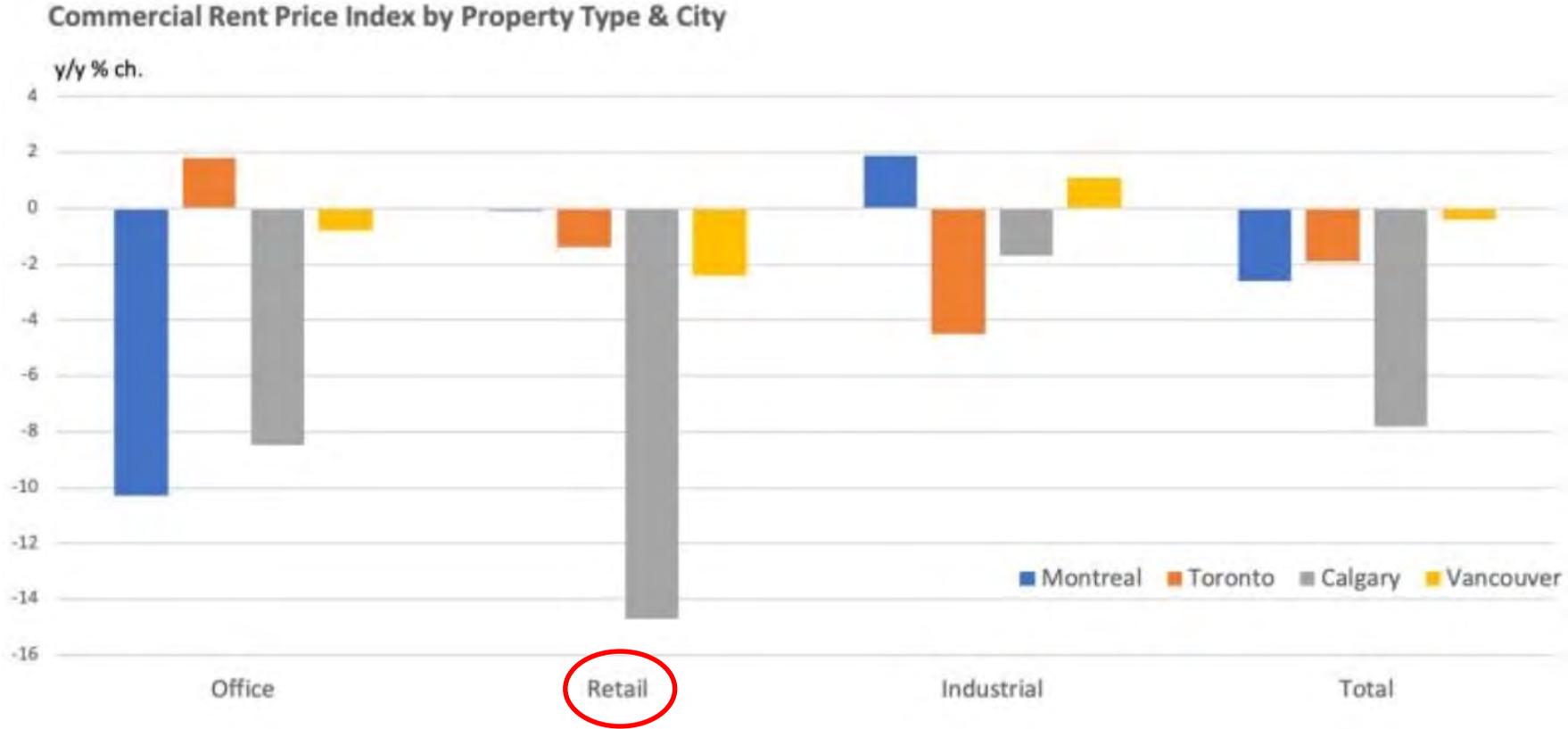
Statistics Canada released Q2 results for its commercial property rent index. While we should take this data with a grain of salt (given compositional issues) commercial rents declined by just over 2% y/y in Q2 - not surprising given the pandemic.

For real estate investors, its interesting to point out that commercial rent growth has barely kept pace with inflation over the last few years, and especially so during the past quarter.

Source: Statistic Canada

# COVID-19 IMPACT ON RETAIL

## COMMERCIAL RENTS BY PROPERTY TYPE ACROSS CANADA



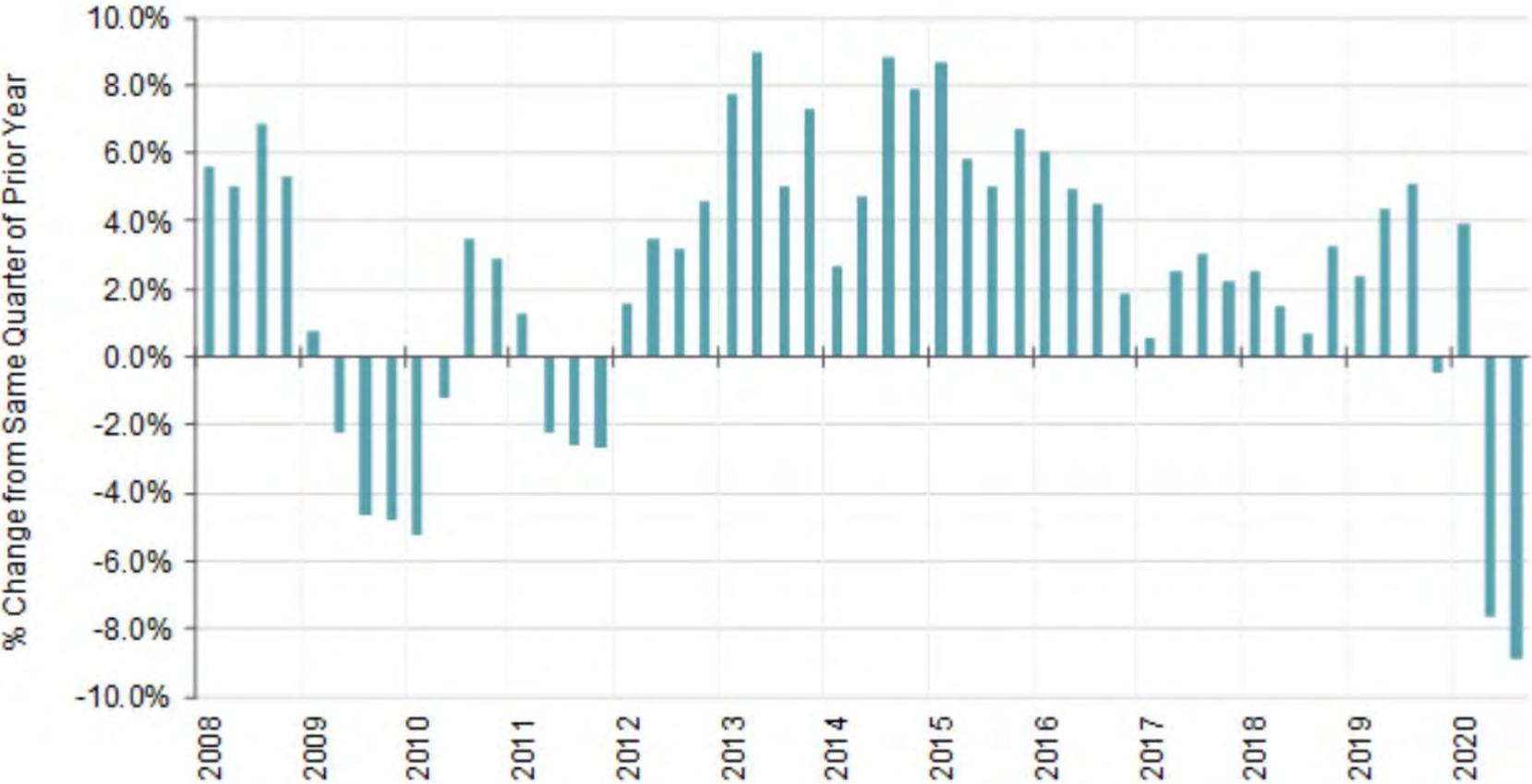
From a property type perspective, retail (again not surprisingly) took the biggest hit, while industrial performed the best, albeit all commercial properties experienced rent declines.

Regionally, Vancouver and Toronto commercial rents held up best, while Calgary has fared the worst - not surprising given its important but struggling energy sector.

Source: Statistics Canada

# COVID-19 IMPACT ON RETAIL

## U.S. SHOPPING CENTER INDUSTRY BASE RENT (YOY % CHANGE): 1Q 2008 TO 3Q 2020



According to updated shopping center performance data recently released by ICSC, Q3-2020 was another challenging period for the industry. Total operating income in Q3 declined 9.8%, impacted in part, by an 8.9% drop in base rents from the prior year. At the same time, expenses rose 10.0%.

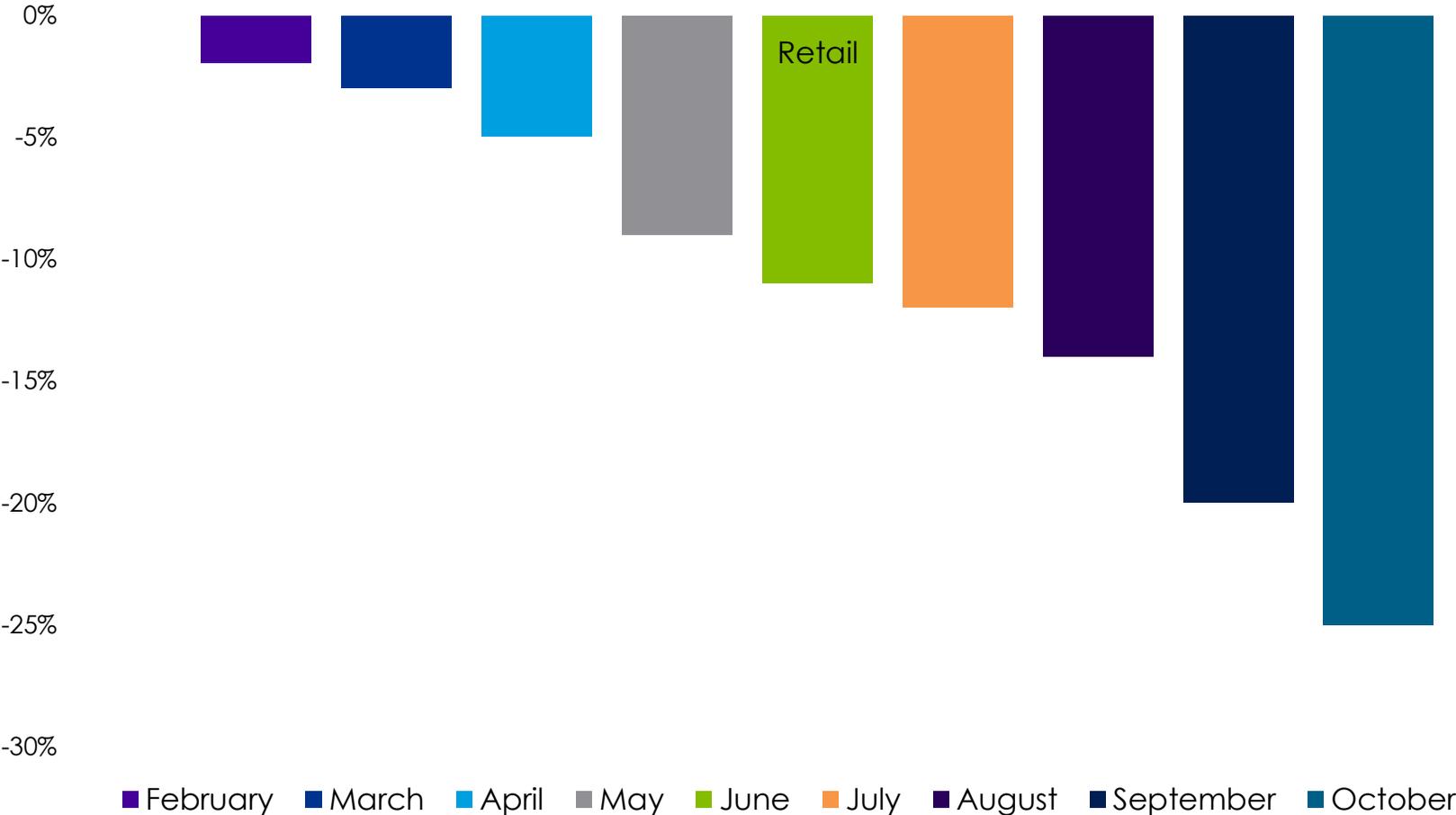
By property type, malls were impacted the most, seeing a 28.9% decline in net operating income, while open-air centers saw a 15.2% drop.

Despite this, there are many hopeful signs of a recovery and an economy on the mend, especially looking into 2021. ICSC's latest research on economic sentiment's during this pandemic, for example, show a positive consumer outlook for the year ahead. An average 47% of them have say they see the economy improving over the next year.

Source: NCREIF, ICSC Research

# COVID-19 IMPACT ON RETAIL

“ASKING” RENTS DECLINE IN U.S. ON CONTINUOUSLY VACANT SPACE



Source: Cushman & Wakefield Research, CoStar

# COVID-19 IMPACT ON RETAIL

OBSERVATION: U.S. RENTS RECEIVED ... GETTING BETTER BUT DEFERRALS UP

NAREIT Share of Rent Received by Property Type						
CRE Sector	April	May	June	July	August	Sept
Industrial	97.0%	95.7%	97.8%	99.4%	N/A	N/A
Office	93.2%	92.6%	97.5%	96.4%	N/A	N/A
Apartments	93.8%	94.8%	96.0%	95.3%	96.0%	95.7%
Health Care	90.4%	90.1%	94.9%	95.1%	N/A	
Retail Free stand	72.7%	70.1%	79.4%	91.1%	90.5%	94.9%
Retail Shopping Centers	50.2%	49.2%	60.5%	72.4%	80.1%	81.6%



Source: Equity market capitalization weighted. Nareit survey of members, public disclosures, and FTSE Nareit All REITs Index equity market capitalization as of August 31, 2020 via FactSet.

Source: Cushman & Wakefield Research, NAREIT

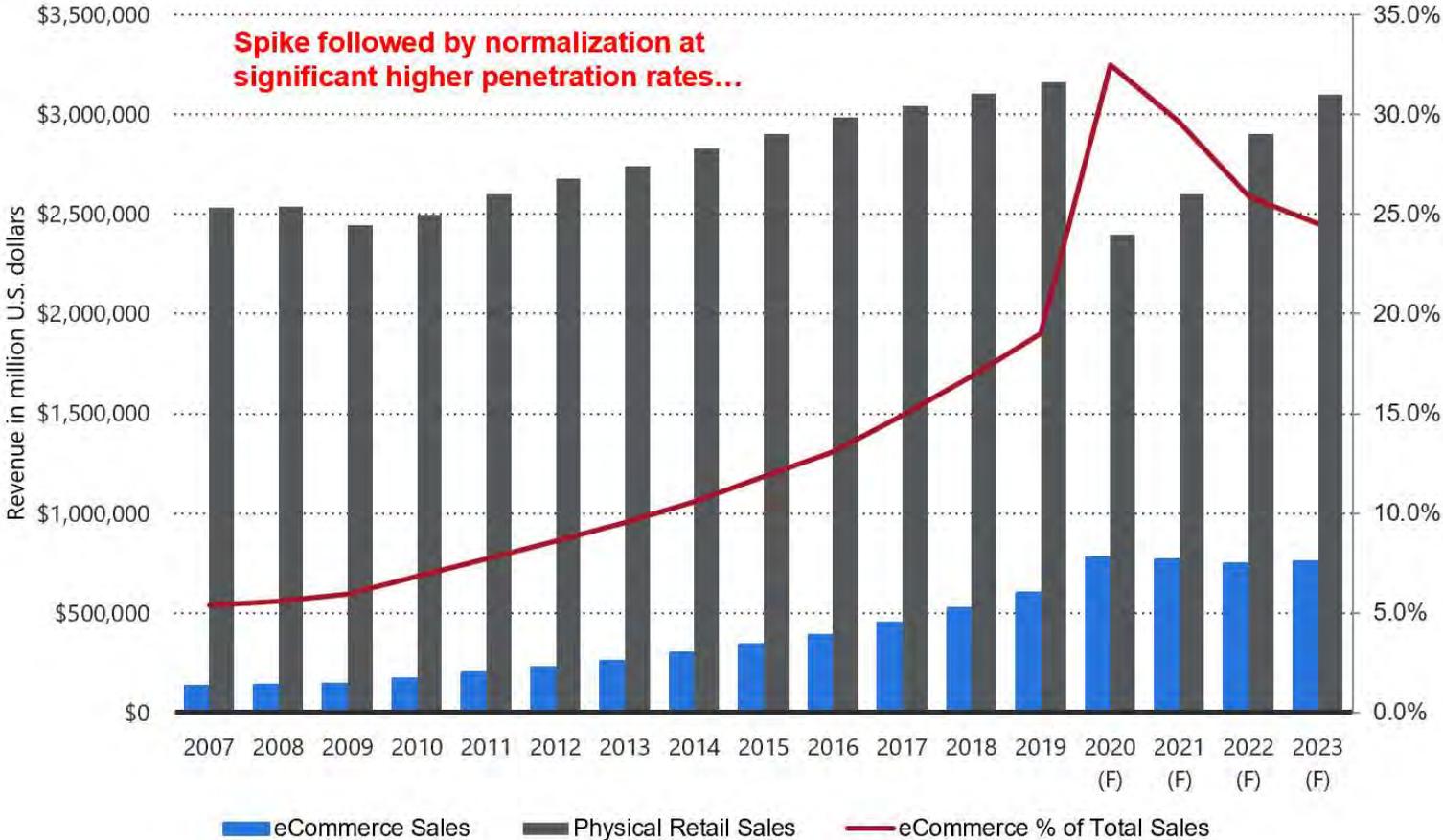
# COVID-19: The Great Accelerator for Retail Change

Impact on E-commerce During COVID-19



# COVID-19 IMPACT ON RETAIL

## U.S. E-COMMERCE: RAPID ACCELERATION DURING COVID

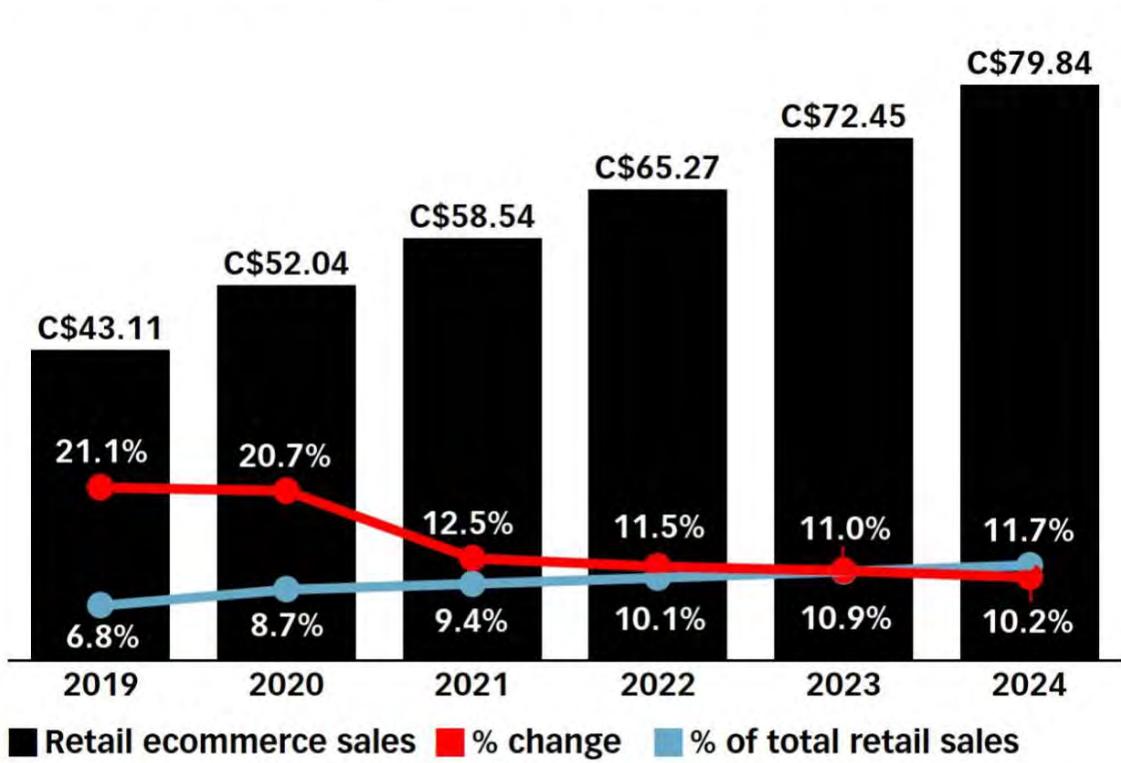


Source: Cushman & Wakefield, Digital Commerce 360

# COVID-19 IMPACT ON RETAIL

## PREDICTION: CANADA ECOMMERCE GROWTH TO ACCELERATE, THEN STABILIZATION

**Retail Ecommerce Sales in Canada, 2019-2024**  
billions of C\$, % change and % of total retail sales



According to eMarketer.com, they estimated that retail ecommerce’s share of total retail in Canada would be 7.7% in 2020 but revised it to be 8.7%. COVID-19’s massive disruption to physical retail is causing heavy declines in Q2 and 2020 overall. In response, consumers are turning to ecommerce options to meet their essential shopping needs.

**What is the impact of COVID-19 on retail and ecommerce in 2020?**

They expect Canada’s retail sector to shrink by 6.2% in 2020, more than double the drop in 2009 during the global financial crisis. In Q2, they forecast the decline will be 15.5%. Ecommerce activity has picked up significantly and is helping to mitigate some of these losses.

**How much will consumers in Canada spend on ecommerce in 2020?**

Retail ecommerce will reach CA\$52.04 billion this year. That’s up 20.7% from last year and will represent 8.7% of all retail sales.

Source: eMarketer.com, Statistics Canada

# COVID-19 IMPACT ON RETAIL

PREDICTION: ONLINE LIKELY TO CONTINUE EVEN AS STORES OPEN



Source: Braze, Wakefield Research

# COVID-19: The Great Accelerator for Retail Change

Changing Consumer Preference During COVID-19



# COVID-19 IMPACT ON RETAIL

PREDICTION: CONSUMER BEHAVIORS ARE CHANGING

**“There’s never been a time in modern human history when every person is seriously worried about the same thing at the same time.”**

David Ropeik, risk management consultant and former instructor in risk communication at the Harvard School of Public Health

# COVID-19 IMPACT ON RETAIL

... HOW ATTITUDES TO SAFETY HAS CHANGED



Frank Chou self-sterilizing lamp

Source: Getty Images / Wunderman Thomson Intelligence

# COVID-19 IMPACT ON RETAIL

## PREDICTION: CHANGING CONSUMER BEHAVIOUR WILL IMPACT RETAIL

### **Prediction: The House as a Castle**

Spending more time at home, we ramp up home improvement. We upgrade our media, remodel kitchens and bathrooms.

**Good for:** Home Improvement, Homewares, Home Technology

**Bad for:** Travel & Leisure, Recreational Products, Recreational Activities, Autos/Auto Aftermarket

### **Prediction: Healthy Living Becomes Like Wearing a Seatbelt**

Everybody does it now. Never in our lifetimes has the importance of personal health and hygiene been thrown into sharper relief.

**Good for:** Household/Personal Care, Fitness Companies & Health Foods

**Bad for:** Tobacco, Fast Food, C-Stores

### **Prediction: The Urban Exodus**

Enforced social distancing leads us to question why we are living in cities in the first place.

**Good for:** Housebuilders, Building Products, Home Improvement, Internet & Telecoms

**Bad for:** Urban Real Estate

### **Prediction: Slow Living Kills Fast Fashion**

Trends become less short term, shopping less experiential. Comfort takes precedence. In an era of staycations and quiet nights in, conspicuous consumption becomes almost an oxymoron.

**Good for:** Sportswear, Online Retail

**Bad for:** Luxury Brands, General Retail, Container Shipping

*Source: Jefferies Global Research*

# COVID-19: The Great Accelerator for Retail Change

Impact on the Shopping Centres due to COVID-19



# COVID-19 IMPACT ON RETAIL

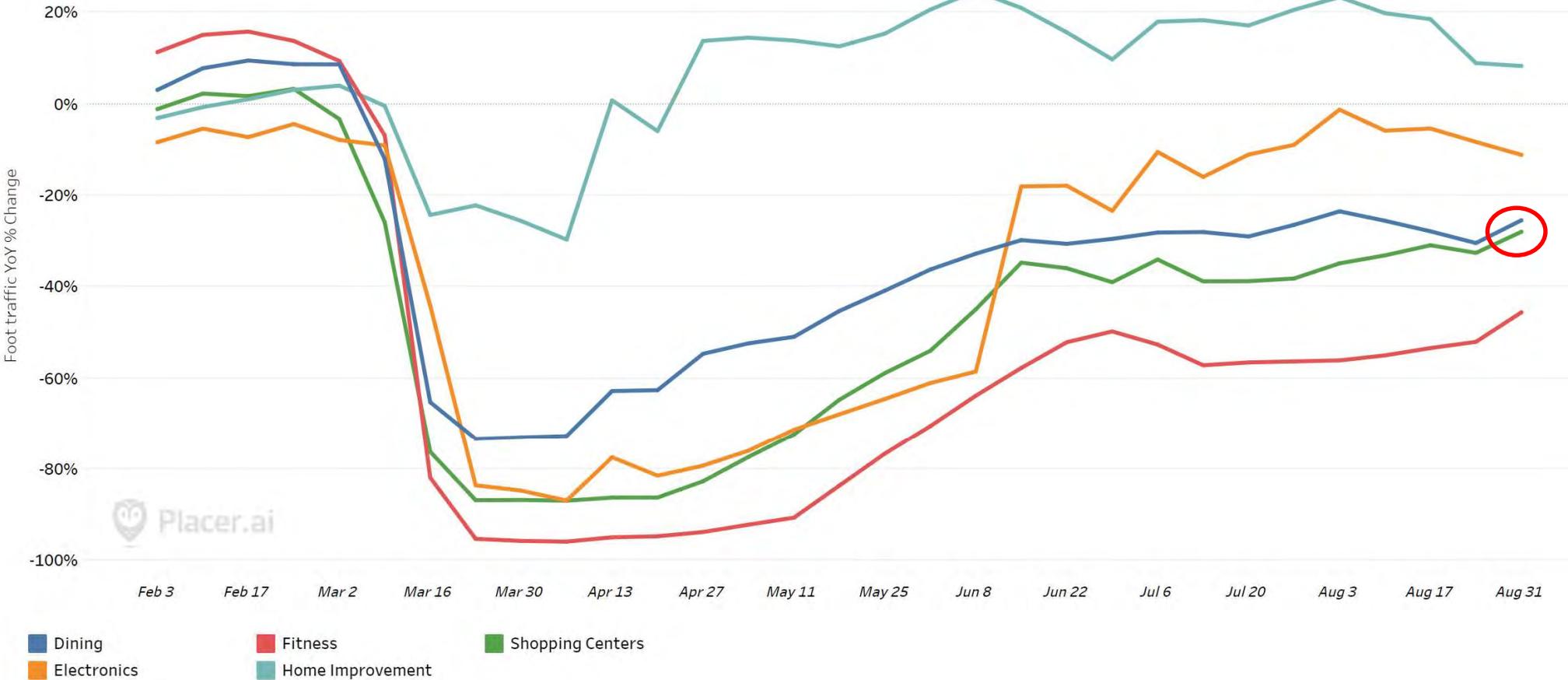
OBSERVATION: NOT ALL RETAIL CENTRES ARE AFFECTED EQUALLY

Visits made per Visitor (Mar-Sep)	2019	2020	YoY Change	% YoY Change
Super Regional	12.7	9.3	-3.4	-27%
Regional	14.0	9.4	-4.6	-33%
Community	19.0	14.7	-4.3	-23%
Neighbourhood	17.0	13.5	-3.5	-21%
Convenience	5.7	5.2	-0.4	-7%

Source Environics Analytics (City of Vancouver)

# COVID-19 IMPACT ON RETAIL

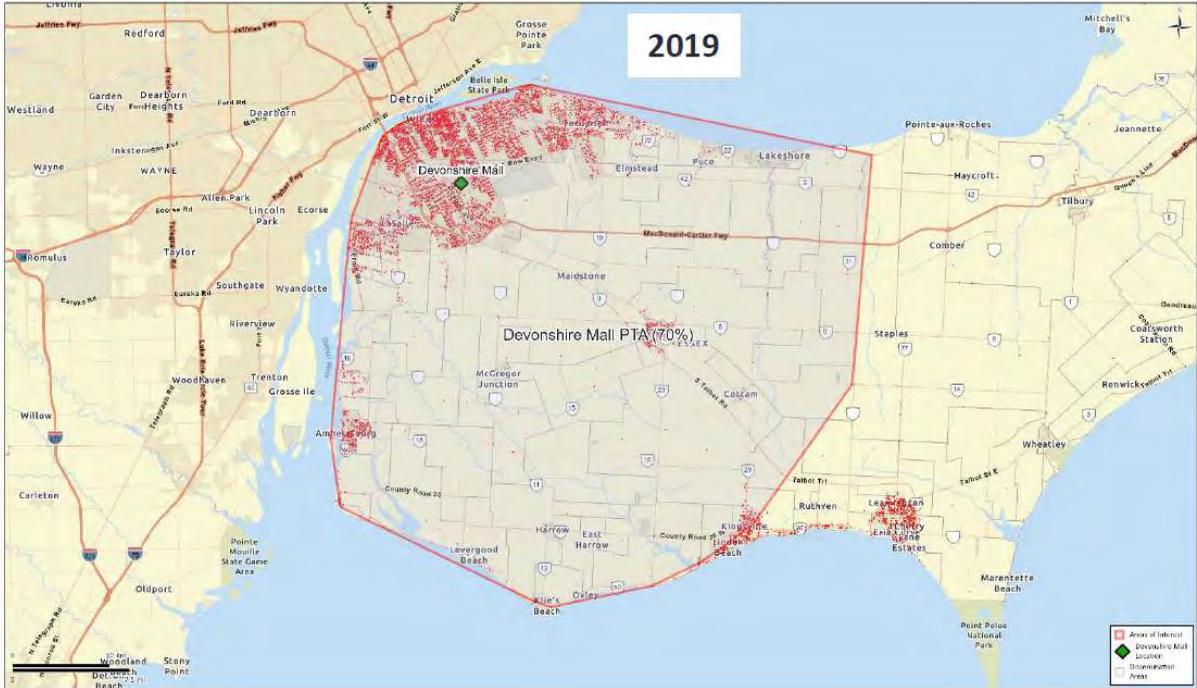
## TRAFFIC COUNTS: CATEGORY MIX TRENDS (US DATA)



Source: Placer AI

# COVID-19 IMPACT ON RETAIL

OBSERVATION: SHOPPER'S LOCALLY FOCUSED / MALL PRIME TRADE AREAS SHRINK



Source: Enviroics Analytics (Devonshire Mall in Windsor, Ontario) PTA is 70% of Visitors to the Mall

# COVID-19 IMPACT ON RETAIL

## TRAFFIC COUNTS: INDOOR VS OUTDOOR MALLS (US DATA)



Source: Placer AI

# COVID-19 IMPACT ON RETAIL

PREDICTION: EXPECT CURBSIDE (THROUGH BOPIS) TO GROW & BE ENHANCED

## Retail Click-and-Collect Set to Grow Significantly Post COVID-19 in Canada: Experts

April 23, 2020

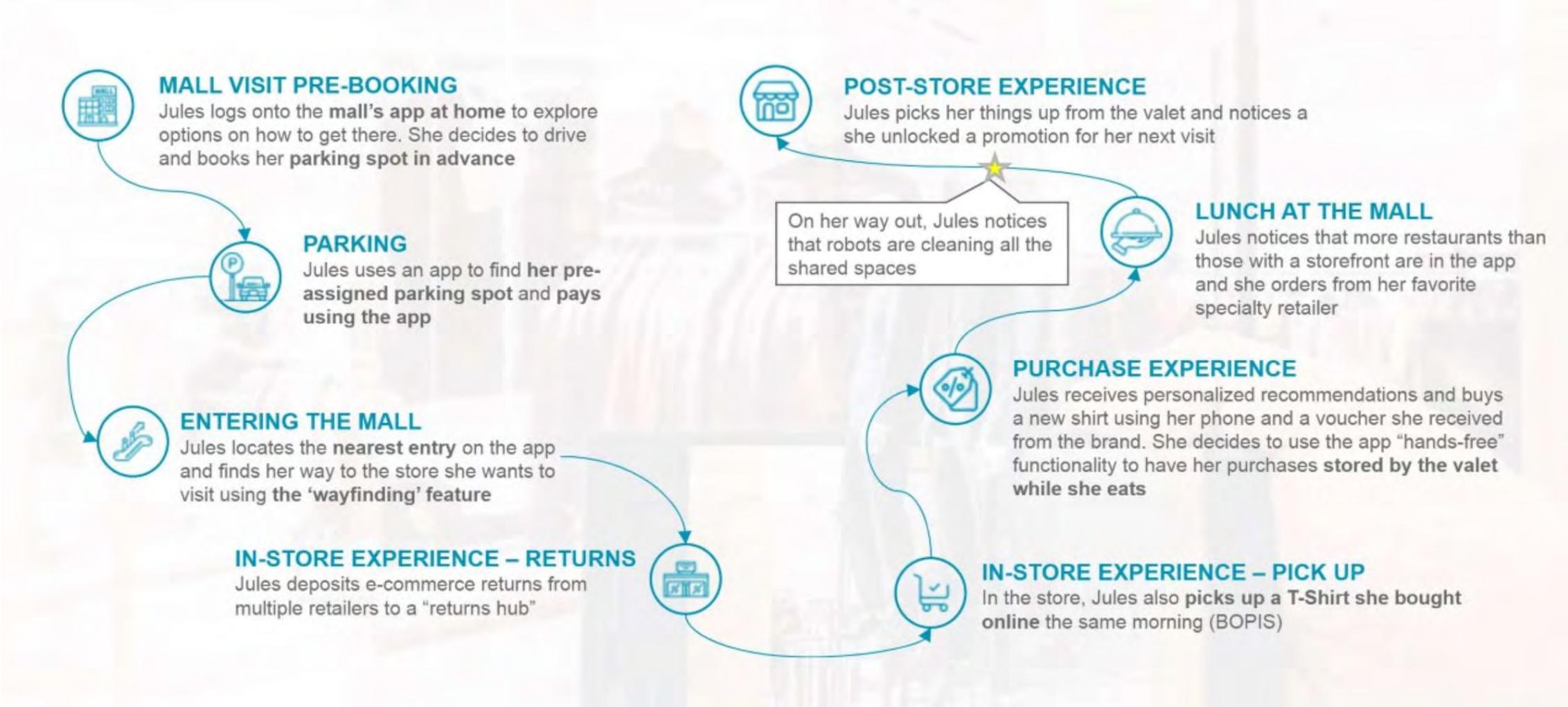


Source: Retailer Insider / Big Red Rooster / ICSC



# COVID-19 IMPACT ON RETAIL

## PREDICTION: INCREASED IMPLEMENTATION OF TECHNOLOGY IN RETAIL MALLS



Source: Fifth Wall, Cushman & Wakefield

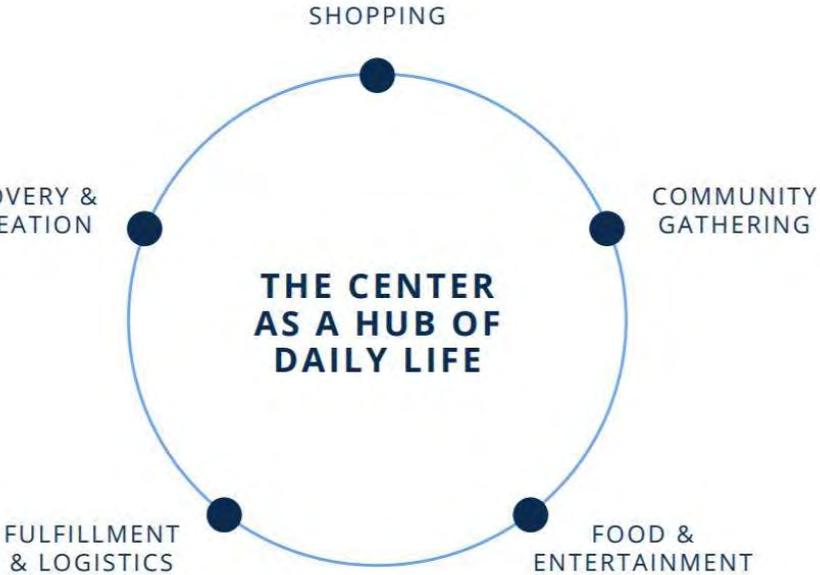
# COVID-19 IMPACT ON RETAIL

## PREDICTION: FUTURE OF THE SHOPPING MALL



YESTERDAY

OWNER / DEVELOPER AS LANDLORD



TOMORROW

OWNER / DEVELOPER AS "LIFESTYLE ARCHITECT"

Source: Brookfield Properties Report

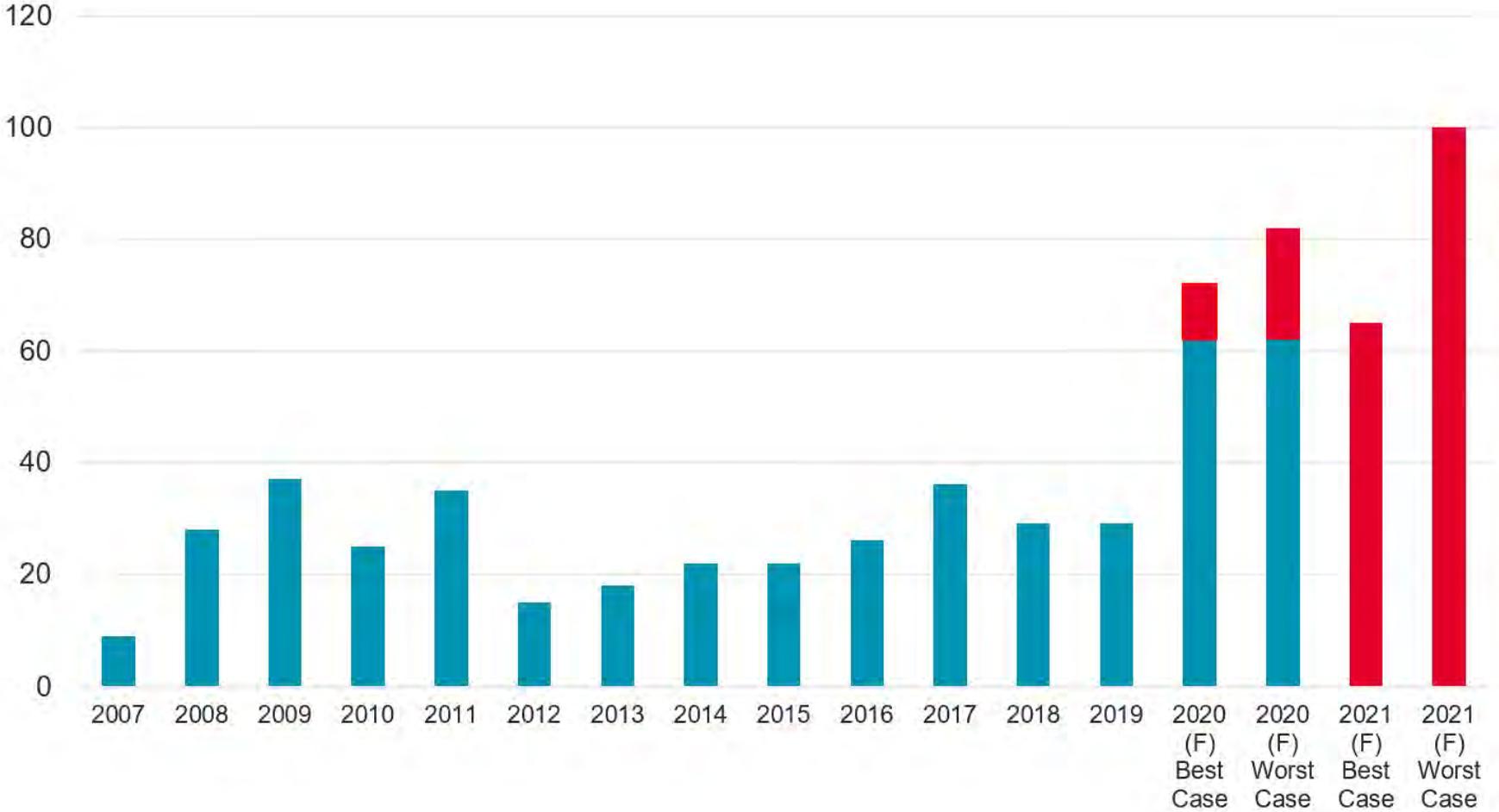
# COVID-19: The Great Accelerator for Retail Change

Impact on Retailers During COVID-19



# COVID-19 IMPACT ON RETAIL

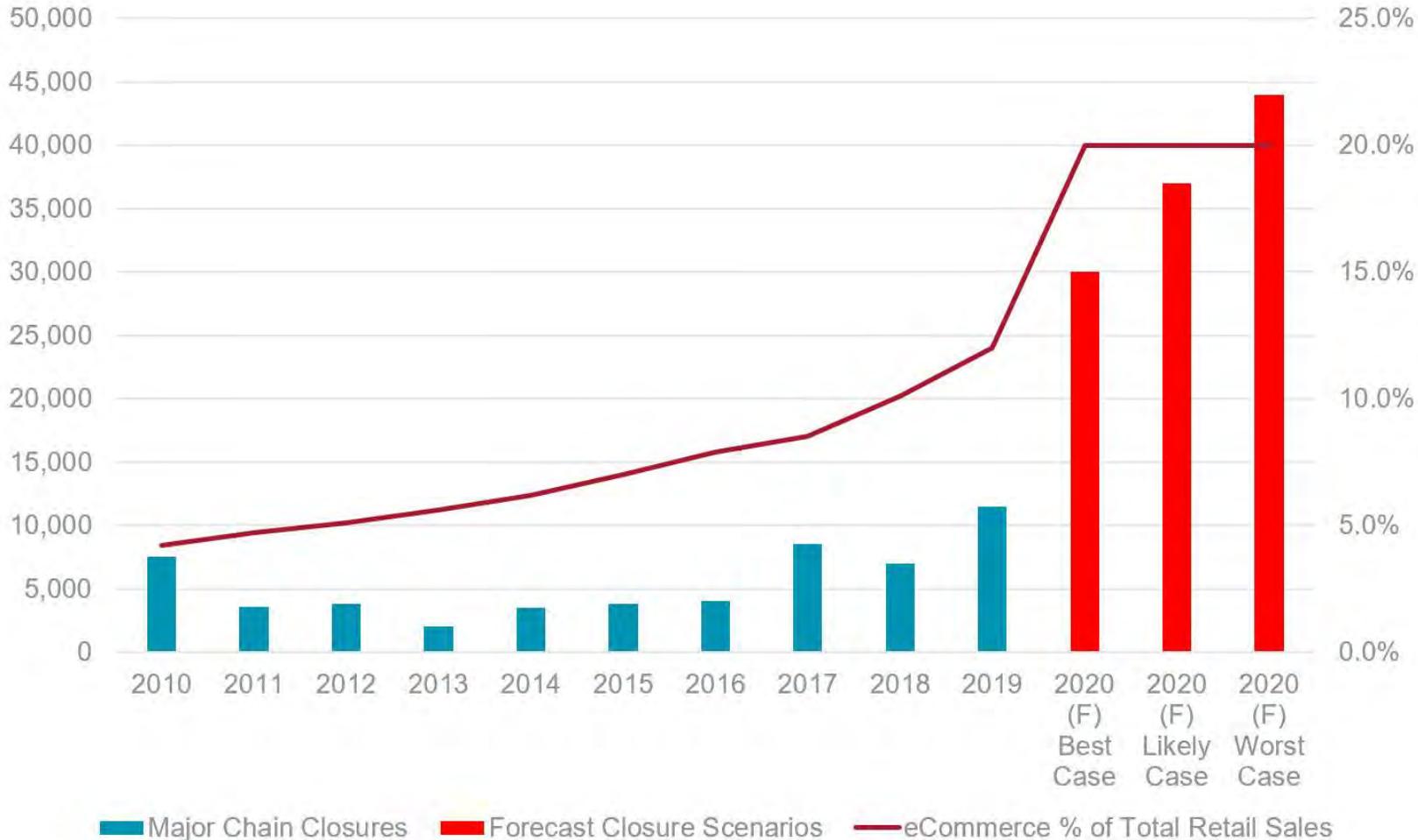
PREDICTION: U.S. BANKRUPTCIES WILL FAR SURPASS THE GREAT RECESSION



Source: Cushman & Wakefield Research

# COVID-19 IMPACT ON RETAIL

PREDICTION: U.S. RETAIL STORE & RESTAURANT CLOSURES ON PACE FOR 30,000



Source: Cushman & Wakefield

# COVID-19 IMPACT ON RETAIL

## STORE CLOSURES IN CANADA FOR 2020 (YTD): TOP 25



Source: Ryerson Retail Chains Directory

# COVID-19 IMPACT ON RETAIL

OVERALL SECTOR HEALTH: RISK OF SPACE BEING RETURNED TO MARKET

Sectors at Greatest Risk	Sectors w/Some Risk	Sectors at Least Risk
Apparel (Mid-Price)	Automotive Parts & Services	Apparel (Off-Price)
Bookstores	Banking	Apparel (ReSale)
Crafts/Hobbies	Consumer Electronics/Cellular Stores	Commissary Kitchens
Department Stores	Dry Cleaners	Convenience Stores
Health Clubs/Fitness/Gyms	Health & Beauty	Discounters
Luxury Retail	Home Furniture & Furnishings	Dollar Stores
Office Supplies	Restaurants (Fast Food/QSR)	Food Halls/Ghost Kitchens
Restaurants (Casual/MidScale)	Sporting Goods	Grocery & Warehouse Stores
Restaurants (Fast Casual)		Hardware/DIY
Restaurants (Fine Dining)		Laundromats
Theaters		Mass Merchandisers/SuperStores
Toys/Games		Pet Supplies



Source: Cushman & Wakefield

# COVID-19 IMPACT ON RETAIL

## OBSERVATION: SUBURBAN RETAIL MARKETS GETS A BOOST FROM PANDEMIC

Mass retailers and residents alike are trading in urban locales and lifestyles for the relative security, savings and space of the suburbs.



Big brands are looking to smaller suburbs as major metropolises struggle to support retail amidst a steep decline in foot traffic. In the US, national chains are shifting their focus away from city centers, vacating high-profile locations.

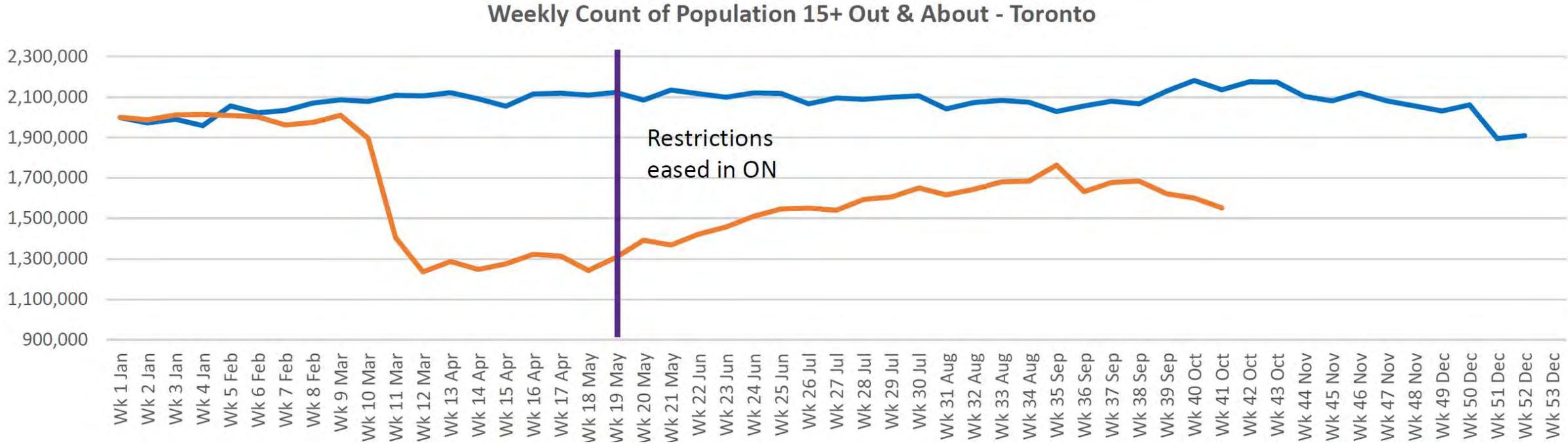
On Broadway in Manhattan, more than 300 storefronts are vacant—a 78% increase from 2017, the *Wall Street Journal* reported. J.C. Penny, Neiman Marcus, Le Pain Quotidien, Kate Spade and Subway are among the national chains that have permanently closed Manhattan branches.

Global retailers like Gap and Victoria's Secret have kept their Manhattan stores shut while reopening in other states. T.G.I. Friday's restaurants in Rockefeller Center and Times Square have remained closed, while locations elsewhere in the country are back up and running.

At the end of July, Shake Shack announced a 40% decline in revenue in the second quarter, noting that its stores in big cities like New York “were most impacted by the COVID-19 outbreak,” *The New York Times* reported.

# COVID-19 IMPACT ON RETAIL

OBSERVATION: LESS PEOPLE IN THE CITY AFFECTS URBAN RETAIL



Source Environics Analytics:

# COVID-19 IMPACT ON RETAIL

## OBSERVATION: MOST RESTAURANTS OPERATE AT A LOSS



The economy may be slowly restarting but most restaurants in Canada say they are still operating at a loss. A survey by Restaurants Canada found that six out of 10 restaurants are operating at a loss while 22 percent of single-unit operators and 15 percent of multi-unit operators said they are just breaking even

The Restaurants Canada survey also found:

- Among restaurants that have reopened their doors for on-premise dining fewer than half (31 percent of single-unit operators and 43 percent of multi-unit operators) said doing so has had a positive impact on their operations;
- More than a third (47 percent of single-unit operators and 39 percent of multi-unit operators) said the impact on their operations has been negative; and
- The remainder reported no impact or said it's still too soon to assess.

Source: Retailer Insider

# COVID-19 IMPACT ON RETAIL

## OBSERVATION: GYM MEMBERSHIPS ON THE DECLINE – IS IT PERMANENT?



RunRepeat, a website that reviews running shoes, recently conducted a survey of 5,055 gym members, between August 1 and August 13, on their thoughts about returning to their gyms and what they plan to do.

Overall the survey found:

- Only 30.98 percent of gym members have returned to their gym since lockdowns
- 60 percent have cancelled or are considering cancelling their memberships (19.59 percent cancelled, 40.11 percent considering)
- Consumer confidence in gyms has decreased since March, with 22.35 percent fewer members returning to their gyms than had expected to by now and 22.49 percent more respondents having already canceled or considering cancelling their memberships than expected to in March.

# COVID-19 IMPACT ON RETAIL

## OBSERVATION: THEATRE SALES HAVE FALLEN OFF A CLIFF ...

Respondents who said they were uncomfortable going to a movie in September were asked if the following promotions would make them more or less likely to go to a movie this month:

	MORE LIKELY	NEITHER MORE OR LESS LIKELY	Don't know/ No opinion	LESS LIKELY
Renting out an entire theater	30%	38%	10%	23%
Free movie tickets	25%	41%	9%	26%
Free screenings of new films	24%	43%	9%	24%
Discounted movie tickets	22%	43%	9%	26%
Free concession items	21%	45%	8%	25%
Digital downloads of movies	17%	44%	9%	28%
Rewards and loyalty programs	16%	49%	9%	25%
Free screenings of older films	16%	46%	9%	29%
Discounted concessions	14%	48%	9%	27%
Giveaways such as posters	13%	50%	9%	29%
Screenings of older movies	12%	46%	10%	32%
Special themed concessions	11%	50%	10%	29%
Screenings of live events	11%	49%	10%	29%

### Box office sales

Most movie theaters closed in response to stay-at-home orders. AMC Theaters, the world's biggest movie theater chain, has delayed its reopenings to "mid-to-late August".



Source: Box Office Mojo by IMDbPro

Data as of August 24, 2020

Source: Cushman & Wakefield Research, CNBC/Atom Tickets, Morning Consult

# COVID-19 IMPACT ON RETAIL

## OBSERVATION: TENSION BETWEEN LANDLORDS AND RETAILERS CONTINUES

### Hudson's Bay Company accused by 2 landlords of not paying rent since April at 5 locations



Iconic retailer accused of not paying rent since April at 5 Quebec locations

The Canadian Press · Posted: Oct 14, 2020 3:18 PM ET | Last Updated: October 14



Source: CBC, Globe & Mail

Hudson's Bay Co. is battling with two of its major landlords over the retailer's failure to pay the rent during the novel coronavirus pandemic, alleging that one of them, Oxford Properties, is not doing enough to draw customers to its Quebec malls.

The HBC accusations were filed in Quebec's Superior Court on Monday in response to a petition from Oxford for a court order to force the retailer to pay the rent at two of its shopping centres: Galeries de la Capitale in Quebec City and Les Promenades in Gatineau. Cominar REIT is also asking the court to order HBC to pay rent at three of its shopping centres in the province. HBC said it plans to file a similar response to Cominar.

The legal wrangling provides a window into how HBC and enclosed malls have fared during the pandemic and shows the struggle between tenants and their landlords during the devastating economic crisis. HBC sales at Galeries and Promenades were down more than 99 per cent in April when the malls were shuttered, and the retailer is still well below prepandemic levels at both locations. Customer traffic at both malls was down about 85 per cent in May compared with last year, but the gap closed to less than 20 per cent by August, according to the HBC court filings.

# COVID-19 IMPACT ON RETAIL

OBSERVATION: LANDLORDS ACQUIRING RETAILERS

RETAIL

## Mall owners Simon, Brookfield set to rescue JC Penney from bankruptcy in \$800 million deal



### KEY POINTS

- U.S. mall owners Simon and Brookfield are close to finalizing an \$800 million deal to rescue J.C. Penney from bankruptcy.
- The deal would avoid a total liquidation and save about 70,000 jobs and 650 stores, Joshua Sussberg of the law firm Kirkland & Ellis said Wednesday afternoon during a court hearing.

Source: CNBC

# COVID-19 IMPACT ON RETAIL

PREDICTION: EXPECT MORE “POP-UP” RETAILERS TO FILL NEW VACANCIES

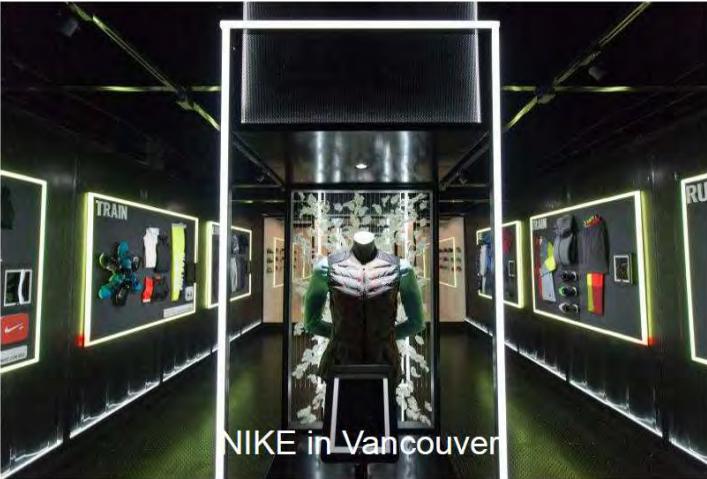


AESOP at Nordstrom in Vancouver



Well.ca at Shops of Don Mills, Toronto

TangerOutlets  
LEASING OPPORTUNITIES / 2020



NIKE in Vancouver



IKEA in Downtown Toronto

# COVID-19 IMPACT ON RETAIL

PREDICTION: RETAILERS WILL INVEST FOR BETTER CUSTOMER SERVICE

## Walmart Canada Announces Major \$3.5 Billion Investment For Growth And Customer Experience Transformation



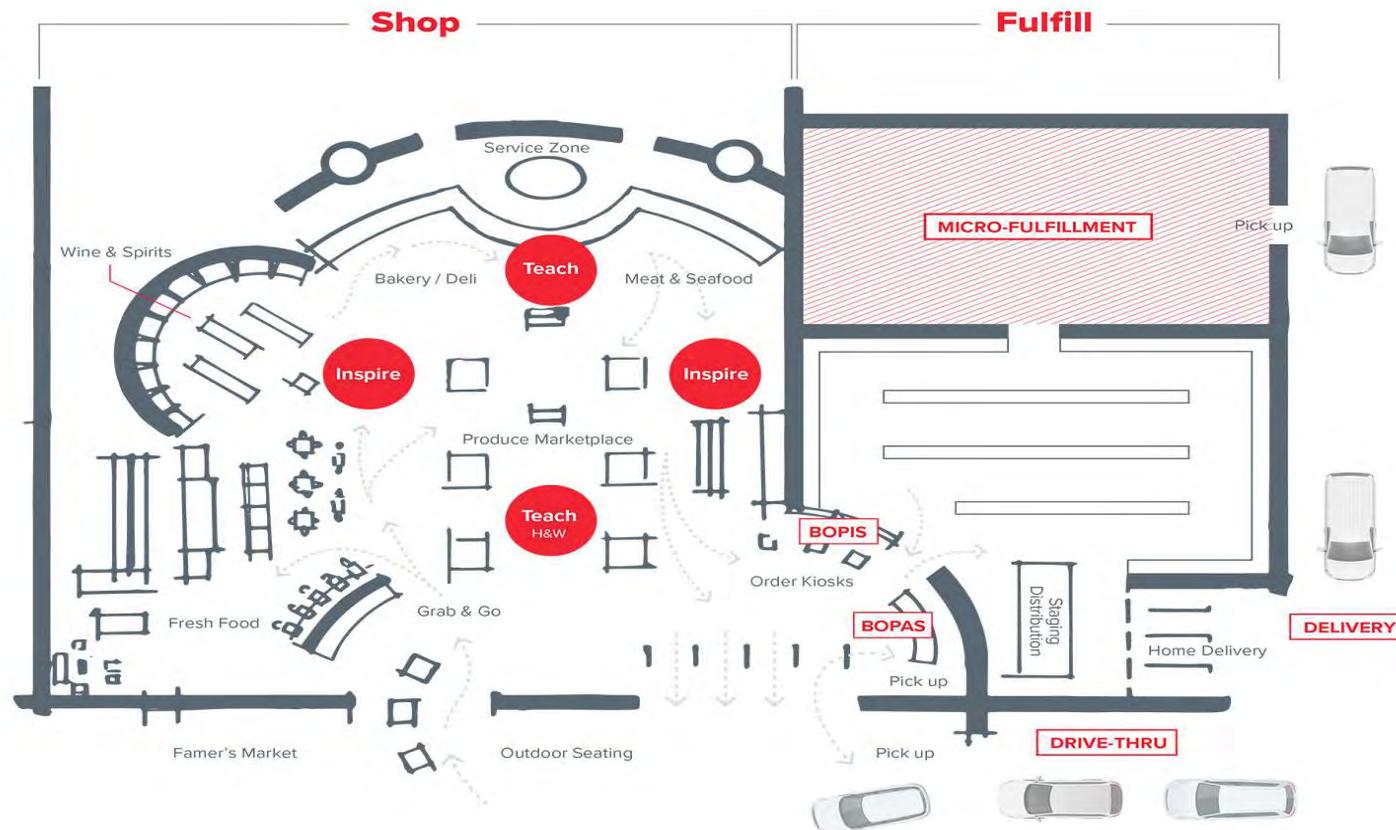
MISSISSAUGA, ON, July 20, 2020 – Walmart Canada is announcing a major \$3.5 billion investment over the next five years aimed to generate significant growth and to make the online and in-store shopping experience simpler, faster and more convenient for Walmart’s customers.

- Significantly expanding “omni” capacity
- Creating “smarter stores” with new technology
- Two new state-of-the art distribution centres
- Hundreds of construction and supply chain jobs to be created across the country
- 150 stores to be renovated over the next three years
- New partnerships with Canadian technology companies announced

Source: Walmart Press Release (July 20 2020)

# COVID-19 IMPACT ON RETAIL

## PREDICTION: E-GROCERY WILL RESHAPE THE STORES OF THE FUTURE



[Grocery: The Evolution Has Just Begun](#)

As we move through the incredible cycle of change brought on by the COVID-19 pandemic, consumers expectations are rapidly evolving, and retailers must respond by re-evaluating customer engagement, in-store and eCommerce experience, and ease of purchase.

New products, customer service models, and technology will be implemented across the entire retail industry – and grocery is leading the way!

This is an exciting time to be transformational, engage your customer to understand what their expectations are, and move quickly to exceed them.

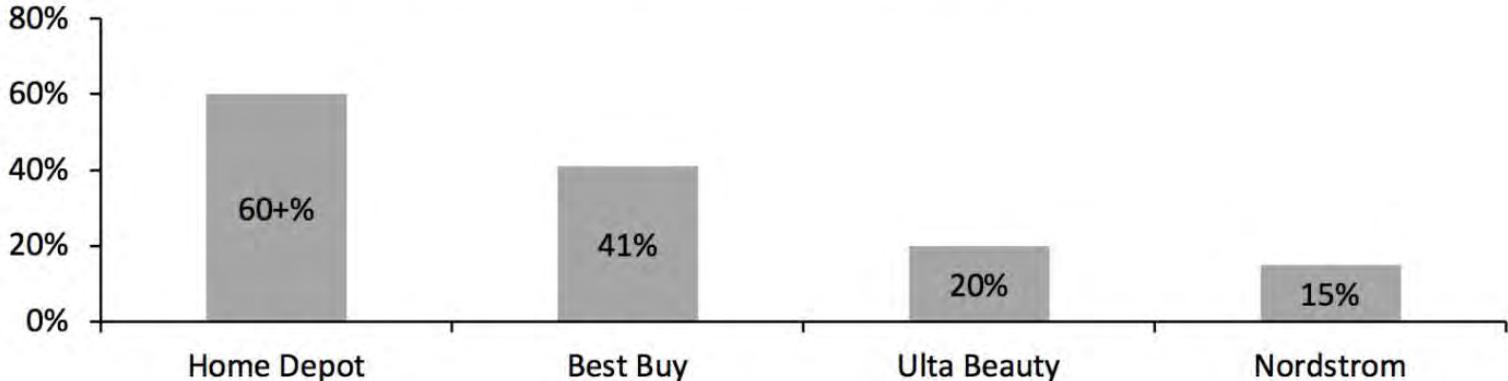
# COVID-19 IMPACT ON RETAIL

## PREDICTION: RETAILERS WILL HAVE MORE EMPHASIS ON FULFILLMENT

Fulfillment will be a major role for many stores this season. As retailers have reported second-quarter earnings, several have pointed to very high rates of collection of online orders. As we chart below, pickup reached as high as 60+% at Home Depot, for example. In addition to at-store pickup, retailers will call on ship-from-store capabilities to serve online demand.

In the second quarter, Target reported that store-enabled digital fulfillment options—which included ship-from-store, in-store pickup and curbside pickup—accounted for 90% of its total e-commerce orders. In addition, same-day services that were fulfilled from stores—including rapid delivery and collection—contributed a full six percentage points of the company’s 24% comparable sales growth.

Proportion of E-Commerce Sales Collected from Store: Selected US Retailers, 2Q20



### Amazon Plans to Put 1,000 Warehouses in Suburban Neighborhoods

Seeking to compete with Walmart on same-day deliveries, the company is opening small shipping hubs around the U.S.

Source: Coresight Research / Company Reports

# COVID-19 IMPACT ON RETAIL

## PREDICTION: REVENGE SPENDING MAY BOOST LUXURY GOODS IN SHORT TERM



Source: Retail Touchpoint

Leading into the pandemic, the luxury category had a positive outlook, according to Bain, with the overall market growing by 4% annually, and reaching an estimated \$1.5 trillion in current exchange rates.

However, new estimates from the **Boston Consulting Group** published in May revealed that **global luxury sales could fall by between \$85 and \$120 billion in 2020 — a 29% drop** that slows a decade of growth across luxury categories, according to Sarah Willersdorf, Global Head of Luxury at Boston Consulting Group.

For months, many businesses have felt the aftershocks in different ways. Neiman Marcus, for example, filed for bankruptcy in May, citing “unprecedented disruption caused by the COVID-19 pandemic.” Tiffany & Co. reported a same-store sales drop of approximately 44% year-over-year during its fiscal Q1.

Luxury icons LVMH Moët Hennessy – Louis Vuitton and Kering, the umbrella company of brands including Gucci, Bottega Veneta, Pomellato, Ulysse Nardin and Balenciaga, both reported year-over-year losses of approximately 15%.

# COVID-19: The Great Accelerator for Retail Change

So ... What's Next for Retail?



# COVID-19 IMPACT ON RETAIL

## ... RETAIL SPACE CONVERTED TO OFFICE SPACE?



Facebook Inc. is considering taking over Neiman Marcus' retail space at Hudson Yards in Manhattan, Women's Wear Daily reported, citing a person familiar with the matter it didn't identify.

The operator of high-end department stores filed Chapter 11 bankruptcy on May 7, which would allow it to back out of its 188,000-square-foot store lease free of penalties.

If Facebook takes over the space, it will add to the lease the tech giant signed last year for more than 1.5 million square feet of space in the same development.

Related Companies, a co-developer of Hudson Yards, and Facebook didn't respond to Women's Wear Daily's requests for comment.

Source: Bloomberg

# COVID-19 IMPACT ON RETAIL

## ... RESTAURANT OF THE FUTURE? ZERO CONTACT



The future is here and it's delicious! A new type of restaurant experience is coming to Canada. Paramount Fine Foods will be bringing a fully automated restaurant to the 6ix. A first in the country, **Box'd Paramount** is coming to Toronto this fall.

According to a news release, Box'd is set to open at 4 King St. W. It's described as a new way for Torontonians to order their takeout while also ensuring they're keeping physical distancing in check.

So, how will it work in practice?

Guests will place their takeout order in advance through a mobile kiosk in-store or on an app. Then they will be alerted by digital status boards in the restaurant, letting them know when their food is ready to be picked up and where to get it.

# COVID-19 IMPACT ON RETAIL

... DOGGONE GOOD IDEA! RETAIL ALWAYS INNOVATING



New dog park concept called “Bark Social” aims to attract both canines and humans and to help landlords activate outdoor spaces.

Bark Social combines entertainment, food-and-beverage and retail in one venue. The 25,000-square-foot prototype features mainly outdoor play and exercise areas for pets, a 2,400-square-foot open-air pavilion for inclement weather and a 1,200-1,500-square-foot clubhouse, which is part bar and coffee house and part store for dog products.



Source: ICSC

# COVID-19 IMPACT ON RETAIL

## ... ROYALMOUNT SHOPPING CENTRE (UNDER CONSTRUCTION) OPENS DRIVE IN

**Montreal's Royalmount Drive-In Theatre opens this Sunday with more than a week's worth of movies**



As the trend towards more drive-in experiences increases around the world, Montreal's first multipurpose drive-in theatre—the Royalmount Drive-In Event Theatre—opens this Sunday in the parking lot space of the Royalmount project (8315 Chemin Royden at the nexus of Décarie and Highway 40), an "eco-innovative neighbourhood" development in the northern end of Côte-des-Neiges. The centerpiece of the Royalmount is a 30-foot wide stage with a giant LED screen and audio that gets broadcasted to cars.

Source Timeout:

# COVID-19 IMPACT ON RETAIL

## ... SOCIAL DISTANCING IN PARIS? IT'S BEAR...ABLE



Le Choupinet café has around ten of the teddy bears which were used before confinement for decoration but have now found a new job helping to keep people apart on the terrace when it gets busy.

Director of the café, Benjamin Artis told Connexion: “We already had the bears but they were inside. Now we take them out when we see that there are too many people on the terrace and it allows us to put a one metre distance between people.”

“It makes a nice image to see in the street and it is useful at the same time – and, of course, customers love it.”

Source: Connexion

# COVID-19 IMPACT ON RETAIL

## ... CAN “THE ROLLING STONE” SAVE RETAIL?

### The Rolling Stones First Flagship Store, ‘RS No. 9 Carnaby’ Opens Its Doors in London

(September 9, 2020) – It all started with Carnaby Street, the heartbeat of the West End of London’s music, fashion, cultural scene for over 60 years. GH+A design studios was privileged to design RS No. 9 within the context of this famous street. GH+A worked closely with Bravado and their team to pack every inch of RS No. 9 with as much energy and soul as we could to be sure that fans who come from around the world will leave feeling a little closer the greatest rock & roll band of all time.



Source: GH&A

# COVID-19 IMPACT ON RETAIL

## SUMMARY FOR RETAIL IN 2020

- We are shifting to a “retailers” real estate market. More lease concessions will be available to retailers than we have historically seen.
- Rents could fall by as much as 10-15% in some markets and “Free Rent” likely to become more prevalent
- Likely to see higher TI allowances, however this may be shorter in duration than other trends and will be influenced by the broader rent reset.
- Likely to see rental assistance programs (e.g. abatements, deferrals, etc.) in-place until at least 2Q 2021.
- Expect the “Rent Disconnect” between LL’s and Retailers to persist for a while.
- We expect to see some retailers pushing for “Percentage Rent Only” deals until sales return to Pre-COVID level. Argument is “risk sharing”
- Likely to see few new store openings until the end of 2021 because most retailers have drained capital reserves (to survive) generally used for expansion
- Likely to see another round of bankruptcies in January/February 2021 especially in Fast Fashion category
- Vacancy rate in retail is projected to double within the next 12 months.
- Expect to have more “shadow” vacancies (e.g. tenant in space, not paying full rent and LL ready and willing to replace for better covenant)
- For the next while, consumers will be “back to basic” for any retail purchases
- Expect LL’s to review its “Tenant Mix” especially with essential and non-essential retailers to better protect NOI.
- LL’s will accelerate plans for Alternative Uses (non-traditional retail) to fill vacancies where possible.
- Although some prime Flagship sites will become available, there will likely be strong competition for such sites as retailers will be focusing on more “quality over quantity” for its new site selections.
- Expect to see the increase usage of AI for both retailers and LL’s to enhance customer experience, increase conversion rates and grow profits
- Expect faster re-development of Shopping Malls with the closure of some HBCs and other box retailers which will result in new leasing opportunities which perhaps weren’t readily available in the past
- Expect to see some LL’s buying distressed retailers to be both opportunistic as well as protecting co-tenancy clause within its shopping centres.
- A number of consumers will permanently shift a portion of their shopping to e-commerce. Consumer data is indicating that a meaningful portion of retail spend could permanently shift online even after the impact of COVID-19 has subsided

# THANK YOU



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