JLL | Achieve Ambitions

United States | Q3 2019

JLL Research Report

Retail Outlook

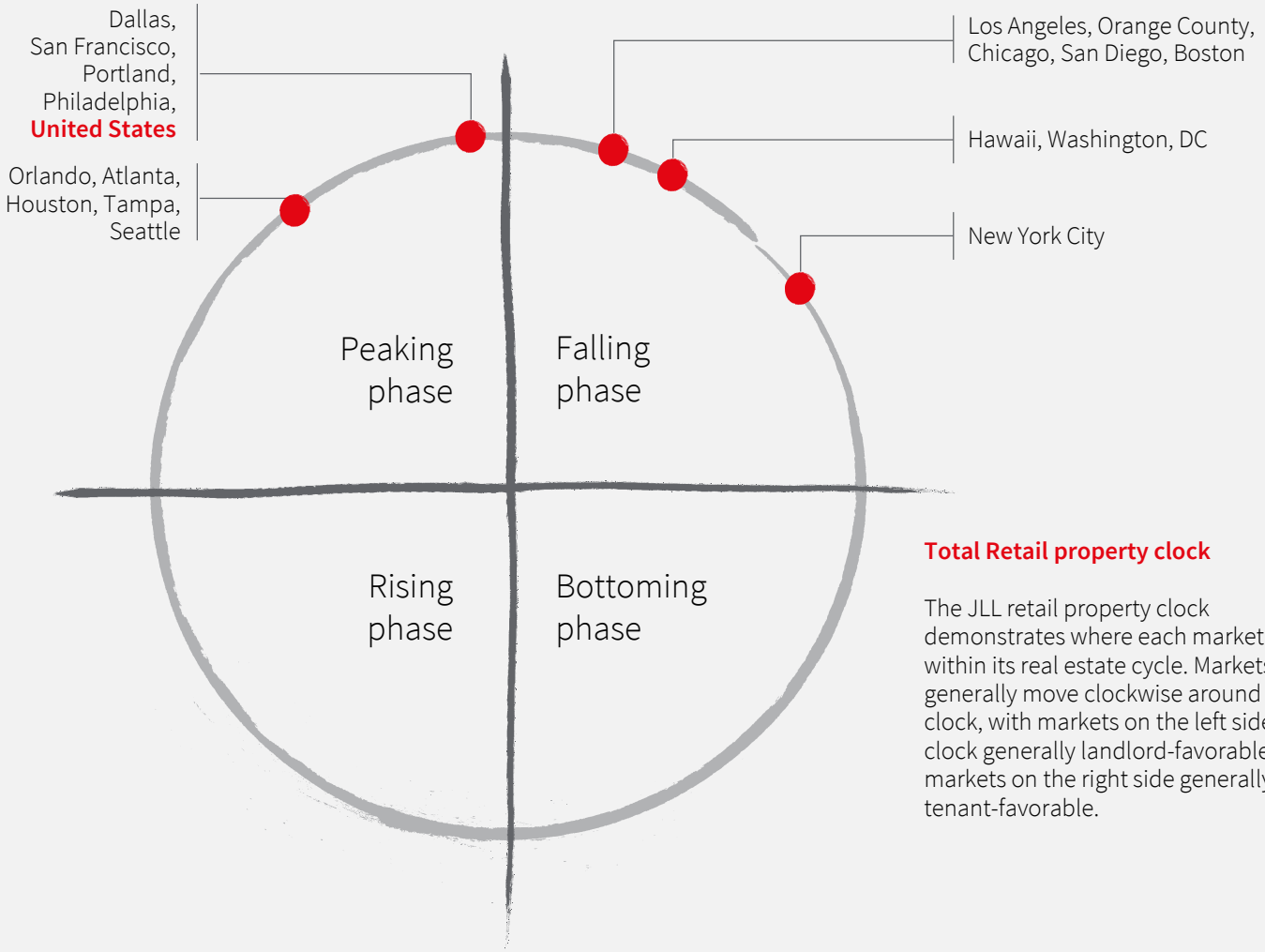
How retail centers are redefining themselves

What's inside?

Retail focuses on placemaking

Total United States

Type	Total square feet	Total vacancy	Q3 2019 net absorption	Q3 2019 average rent	QOQ % change	YOY % change
General Retail	5,932,529,196	3.0%	4,927,063	$21.47	2.3%	8.1%
Malls	895,806,748	4.6%	(280,459)	$18.60	2.5%	-2.8%
Power Centers	800,325,247	5.1%	319,419	$17.61	0.6%	1.4%
Shopping Centers	3,640,349,864	6.8%	3,356,481	$16.38	1.4%	3.6%
Specialty Centers	87,706,950	4.8%	49,697	$15.09	-3.9%	-2.2%
Total Retail	**11,356,718,005**	**4.5%**	**8,372,201**	**$18.36**	**1.9%**	**5.7%**



Total Retail property clock

The JLL retail property clock demonstrates where each market sits within its real estate cycle. Markets generally move clockwise around the clock, with markets on the left side of the clock generally landlord-favorable and markets on the right side generally tenant-favorable.

Healthy retail sales and confidence bode well for strong holiday sales

Third-quarter retail sales grew 1.5 percent from the previous quarter—a strong jump. While September sales waned, July and August gains were robust. Growth in the quarter was propelled by auto sales, F&B, building materials stores and non-store retailers. The outlook for continued sales growth is positive, although gains are expected to moderate in coming months. Job growth will be the major determining factor for retail sales. Other indicators are encouraging. Confidence is near its cyclical high, despite a bump in uncertainty caused by trade tensions. The saving rate is also elevated, giving consumers more leverage to spend if they choose to. All signs point to a merry holiday season for retailers, with experts at JLL predicting growth as high as 5.0 percent.

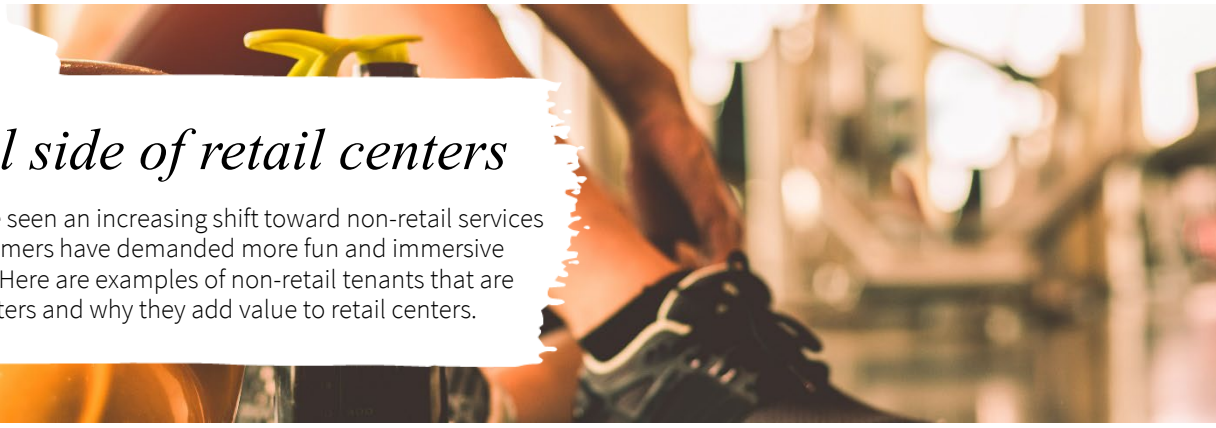
All shopping is omnichannel but consumers' shopping paths lead to stores

Our recent holiday survey, 2019 Holiday Spending Unwrapped, found that most consumers (68.7 percent of respondents) will shop at a retailer with a physical presence—whether that's in store, online or picking up in store after an online purchase. And once they're in stores, consumers plan to pull out their phones to look at product reviews, get deals and make payments. Experience continues to play an integral role in holiday shopping as well. Shoppers who prioritize having a fun shopping experience are flocking to stores. More than half of fun-seeking shoppers (57.3 percent) will buy directly in store, while 21.4 percent will buy online and pick up in store.

While they're checking off their gift lists, shoppers plan to get a little something for themselves too. More than half of shoppers in our survey plan to self-gift this year—a solid indication that holiday sales will grow meaningfully. Most self-gifters will buy clothes and shoes, with electronics as the second most popular choice. Big spenders (those with budgets over $500) really plan to treat themselves—73.5 percent plan to self-gift. A significantly higher percentage of these big spenders will buy pricey accessories like jewelry or luggage as well as appliances for themselves.

Leasing fundamentals pick up in the third quarter

Net absorption for major markets in the U.S. jumped 23.7 percent, quarter-over-quarter, to 8.4 million square feet in the third quarter. Net absorption gains were strongest for power centers, which, after two straight quarters of negative absorption, clocked in at close to 320,000 square feet in positive net absorption. General/freestanding retail, which incorporates urban streetfront locations, had the strongest overall net absorption of roughly 4.9 million square feet, dipping somewhat from the second quarter. Vacancy remained flat at 4.5 percent, and rents rose 1.0 percent from the previous quarter and 5.5 percent year-over-year. Deliveries remain modest, falling 4.2 percent quarter-over-quarter.



The non-retail side of retail centers

In the past few years, we have seen an increasing shift toward non-retail services in shopping centers, as consumers have demanded more fun and immersive experiences when they shop. Here are examples of non-retail tenants that are expanding into shopping centers and why they add value to retail centers.

Fitness concepts

Perhaps at no other time in history have American consumers been more focused on health and wellness. Fitness, as an integral part of the wellness mantra of feeling and looking good, is experiencing a golden era. The number of fitness centers in the U.S. grew 23.5 percent to 111,055 locations from 2010 to 2019. That number is expected to hit 120,700 locations by 2024.[1]

Boutique studios, in particular, are seeing explosive demand and growth. Membership in niche boutique concepts soared 70.0 percent in the last four years, compared to a modest 5.0 percent growth for traditional gym memberships.[2] In our recent report, Fitness invigorates shopping centers, we found that the expansion of these studios in retail has followed a similar trajectory, with move-ins between 2013 and 2018 growing six times faster than traditional gyms.

While fitness tenants are taking space in all retail center types, there are some nuances in what types of tenants are heading into which centers. Neighborhood centers have grown in popularity as a destination for all fitness types, commanding 41.8 percent of the move-ins in 2018, thanks to the presence of grocery stores, which fitness tenants actively seek out.

Freestanding retail and strip centers have decreased in popularity, with an 8.0 percentage-point and 4.5 percentage-point drop in move-ins, respectively. Malls move-ins—though comparatively small—have nearly tripled since 2018, as landlords proactively incorporate more experiential tenants into their centers. Mixed-use centers are also adding fitness tenants to their plans, like Assembly Row in Massachusetts.

We expect fitness expansions in retail to continue to grow. Boutique studios like F45 Training, Fit Body Boot Camp and Pure Barre have been aggressively expanding. Budget gyms are on the rise as well. Low-priced players like Planet Fitness, Crunch and Anytime Fitness have opened hundreds of locations since 2013 and will continue to expand, with Planet Fitness planning serious growth, opening 250 new locations within the next year.

Fitness tenants are a significant addition to retail centers, not just as space fillers but as destination tenants that increase consumer visits and dwell time, thus boosting revenues for the center.

Healthcare tenants

Also aligned with the bourgeoning wellness trend is the growth in retail clinics. Given the current growth rate, retail clinics could hit over 4,000 locations by 2020.[3] The benefits of a healthcare tenant to landlords include longer lease terms—as much as 15 years—particularly appealing given that generally lease terms are contracting.

Entertainment

As landlords focus on making their centers more of an experiential destination, entertainment is an integral ingredient in the tenant mix. From Q1 2010 to Q1 2019, space occupied by entertainment tenants grew 44.7 percent in malls to 45.2 million square feet and 68.5 percent in other shopping centers to 129.7 million square feet.[4] While movie theaters have been longstanding retail tenants, there has been a surge in new concepts including arcades, bowling, dining and active entertainment (like escape rooms, trampoline parks and laser tag arenas). All entertainment has seen growth in the last nine years, but the greatest increase has been by active entertainment—which grew more than 450.0 percent in malls and almost 590.0 percent in open-air centers. We predict that retail will see even more growth in entertainment in coming years, as they form an increasingly more important part of centers.

1. IBISWorld Industry Report 71394: Gym, Health & Fitness Clubs in the US
2. International Health, Racquet and Sportsclub Association.
3. JLL Healthcare Solutions Group
4. ICSC, Expanding Entertainment Tenants Add Experiences to Shopping Centers, Aug. 2019

Developers remain focused on mixed-use construction

Over 76.4 million square feet of retail is currently under construction in the U.S. Of that number, over one-quarter (25.7 percent) are Class A retail properties, 63.5 percent are Class B and 3.7% are Class C. Proposed future retail development is more than five times the volume of current construction, totaling over 391 million square feet, with over 55.0 percent of that number to be delivered by the end of 2020.

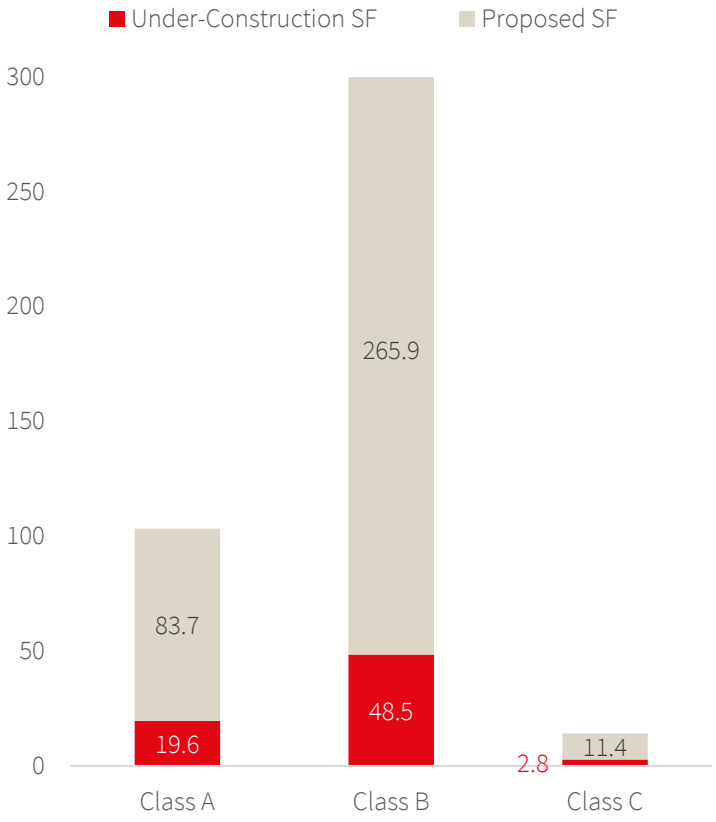
Major projects currently under construction include:

River Landing, Miami, FL—a $424.8 million mixed-use development on eight acres by the Miami River. Located in Miami's Health District, the project will include multifamily, office and retail elements.

The Lake District, Lakeland, TN—an upscale, 16-acre mixed-use community designed as a walkable urban village. It will feature elegant water features and tree-lined parks, along with residential, hotel, office and over 250,000 square feet of retail and restaurant space. Future tenants include wellness concepts Elite Total Health Walk-In Clinic and Neighborhood Barre.

Tangram Tower, Flushing, NY—a 1.2 million-square-foot mixed-use development, featuring prime Class A office space, residential, hotel and 275,000 square feet of retail, as well as a 25,000-square-foot food hall and a movie theater.

Almost 400 million SF of planned retail in the works



Sources: CoStar, JLL Research

Retail property investors focus on smaller targets

Investors are increasingly focused on retail opportunities located in discrete pockets of growth within established markets. Many of these target submarkets have been catalyzed by zoning changes or corporate relocations. Submarkets such as Boston's Somerville and the Fulton Market District in Chicago have attracted disproportionate investment volumes. Institutional investors have shown increased appetite for smaller transactions as well as for unanchored shopping center or strip assets, where a deeper pool of tenants is available for backfill and opportunities for tenant turnover enable greater rent growth. This new strategy helps avoid the vacancy and rent leverage risks associated with large-box products and anchor tenants.

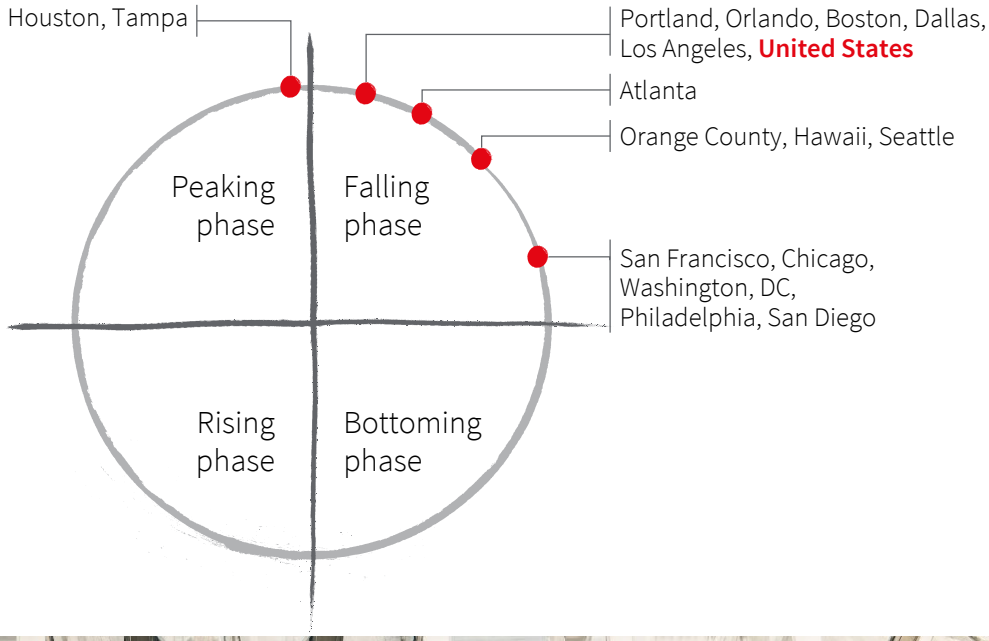
Malls increasingly defined by experiences

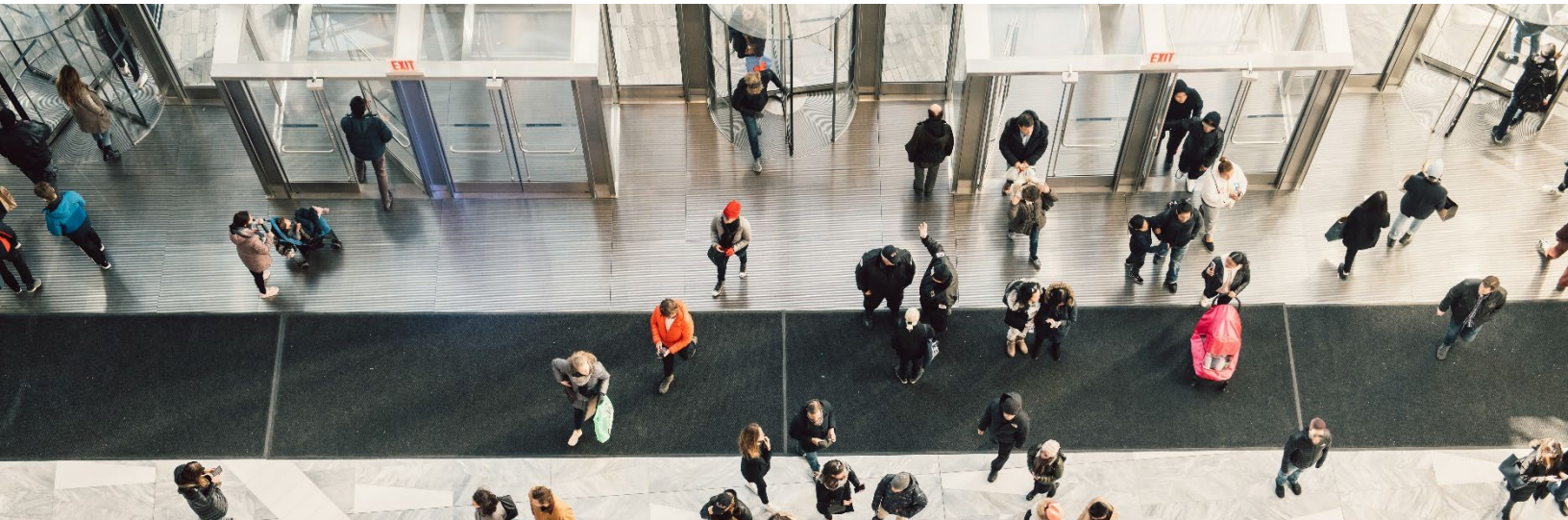
Total United States

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

Malls property clock

For malls, most of the major markets have now peaked and are in the falling market stage. Houston and Tampa are still showing strong performance in the malls segment.





Mall absorption is up, driven by demand for lifestyle center space

Net absorption for malls for all U.S. markets turned positive in the third quarter, totaling 59,000 square feet. Move-in square footage increased while move-outs declined. This drop in move-outs is most likely because apparel store closures fell by almost half from the previous quarter and shoe store closures were minimal.

Lifestyle centers remain the best performer of all mall types, with 1.2 million square feet absorbed in the third quarter, representing 0.6 percent of total inventory. This is the highest absorption seen for lifestyle centers this year. Regional malls and super-regional malls suffered negative net absorption of approximately 1.0 million square feet and 88,000 square feet, respectively. Class A and Class B malls also saw positive absorption in the quarter, while Class C malls continue to struggle with negative net absorption of 736,000 square feet.

Malls sign more non-retail tenants

More non-retail tenants offering health, fitness and education services are heading to malls. Move-ins this quarter include healthcare tenant Conviva, Coperni 3 charter school and Inspire Dance Academy. Entertainment tenants continue to be a key part of mall expansions, with recent move-ins including In the Game, Homewood Community Theatre and Color Me Mine.

Q3 2019 mall move-in highlights

	Lifestyle centers	Regional malls	Super-regional malls
Big-box tenants	Sierra Trading Post, In the Game, Ethan Allen	Costco, Spirit Halloween, Conviva Care Center	Resale America, Coperni 3, Gymage
Smaller tenants	Lululemon Athletica, Madison Reed, Revolution Studio, Color Me Mine	Nekter Juice Bar, Menta Group, Gaming Emporium, Inspire Dance Academy	Athleta, Sola Salons, Diva's Closet

Malls are being revitalized with experiential and non-retail elements

Many mall landlords have been faced with the question of what to do with an outdated retail format or a vacant department store space. The solution for malls with strong demographics is clear: redevelopment.

Breathing life into an old Herberger's space: Rosedale Center—Roseville, MN

With the exit of department store Herberger's, Rosedale took the opportunity to completely redevelop the vacant anchor along with its surrounding space on the south side of the center. The expansion design will create a mixed-use project featuring outdoor community space as well as live-work-play space. Plans include new residential, hotel and grocery, along with open-air retail. A medical office building and coworking space also form part of the plan, and a new food hall, Potluck, which features local chefs, is set to deliver by the end of the year.

The re-imagination of Hamburger's Department Store: Broadway Trade Center—Los Angeles, CA

Hamburger's Department Store in Los Angeles was founded in 1881 as "The People's Store." In the 1980s it transitioned into a garment manufacturing site and swap meet. Now owned by Waterbridge Capital, the massive 1.1 million-square-foot property will be redeveloped into a vibrant mixed-use center. The redevelopment will preserve the historical neoclassical façade but will also add a 110,000-square-foot rooftop with a public park, gardens, two swimming pools and restaurants. The development will be pedestrian-friendly and include 500,000 square feet of creative offices, a 150-room boutique hotel and 200,000 square feet of retail, restaurants and food hall.

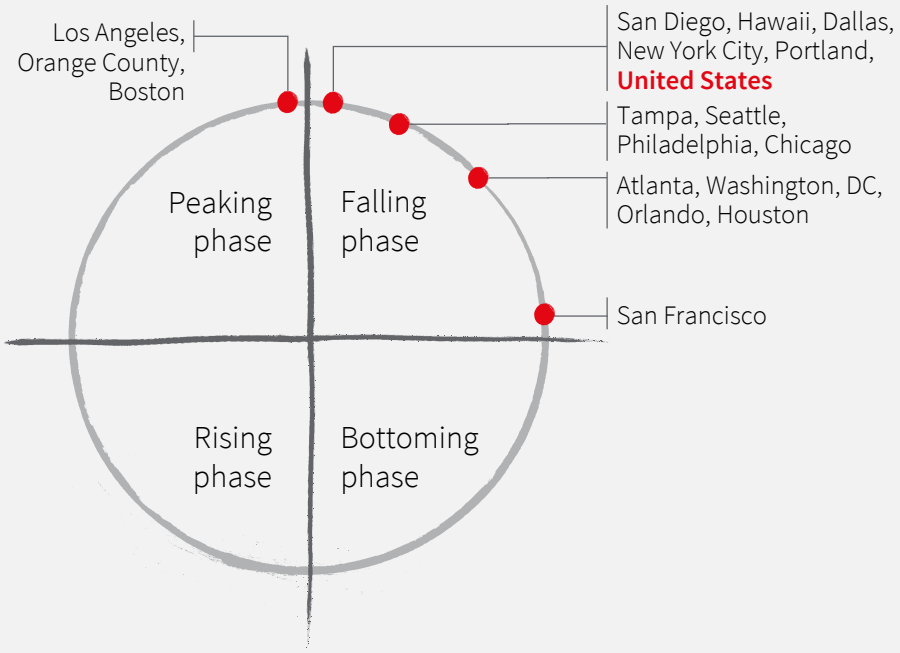
An infusion of experience in Silicon Valley: Westfield Valley Fair—Santa Clara, CA

Westfield Valley Fair, in the heart of Silicon Valley, is undergoing a massive $1.1 billion redevelopment, adding an additional 650,000 square feet. The completed project will feature a new flagship Bloomingdale's, a ShowPlace ICON cinema, expanded luxury collection and an outdoor dining district, as well as over 150 new shops. The center will incorporate art installations and host events like live music, food festivals and fashion shows.

Fitness and value drive power center growth

Power centers property clock

Power centers in most major metros are now in the falling market segment of the property clock, characterized by rising vacancy and falling rents. However, some metros like Boston and Orange County are still approaching their peak as they continue to see strong performance.



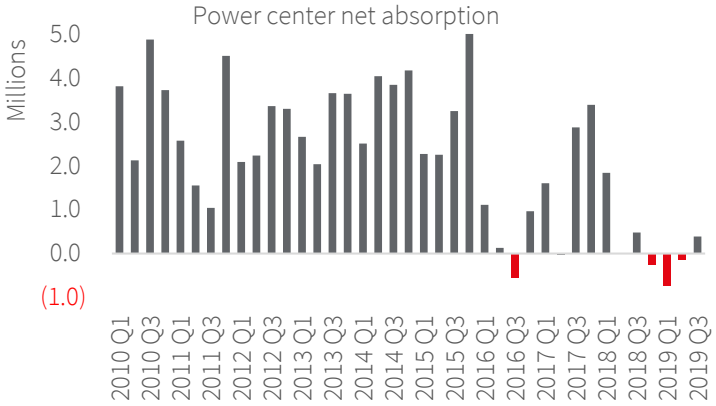
Power center demand lifts in third quarter

Power center net absorption for all of the U.S. totaled 389,949 square feet after three straight quarters of negative numbers. Space taken by new tenants rose, while space vacated fell, contributing to the positive absorption and keeping vacancy flat at 5.0 percent—200 basis points below 2009 levels.

Power center space delivered in the third quarter totaled just a little over 600,000 square feet. Space currently under construction totals approximately 2.9 million square feet.

Top power center move-ins included Planet Fitness, Spirit Halloween, Burlington and Five Below. Houston, Orlando and Tampa were the top major markets for power center net absorption in the third quarter. Houston absorption totaled over 209,000 square feet with signed leases from tenants like Humana and Fit 4 Life.

Power center net absorption positive after three negative quarters



Sources: CoStar, JLL Research

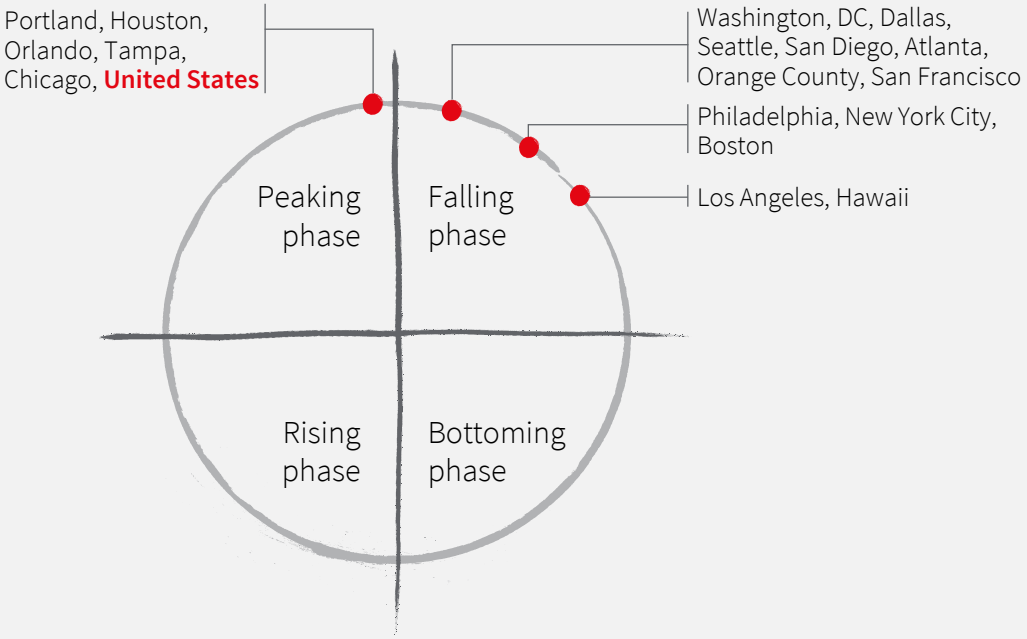
Q3 2019 Power Center select move-ins

Category	Retailers
Fitness	Planet Fitness, Club Pilates, Row House
Non-retail services	Humana, Aspen Dental
Mass merchandise	Five Below, Ollie's
Grocery	Aldi
Home furnishings	Restoration Hardware, At Home

Education and fitness tenants help drive small center demand

Shopping centers property clock

For shopping centers, the markets on the clock are concentrated in the peaking and falling segments, as significant improvement is still apparent for some metros. As conditions continue to soften, more markets should gradually move past midnight.



Neighborhood center demand continues to drive small shopping center absorption

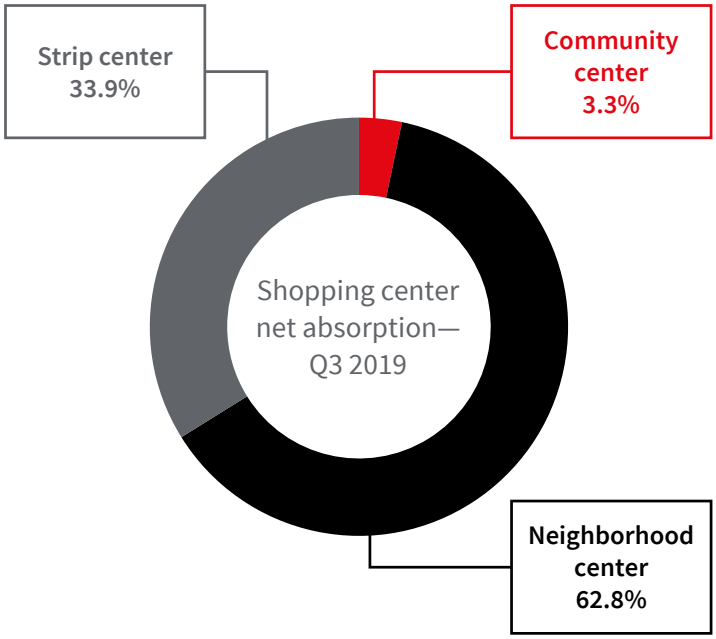
Third-quarter net absorption in U.S. shopping centers (i.e., community, neighborhood and strip centers) rose to 3.0 million square feet, with the majority coming from neighborhood center demand. Move-outs declined from the previous quarter by 4.5 percent, and vacancy remained flat from the previous quarter.

Neighborhood center move-ins saw non-retail service tenants like Mathnasium, Code Ninjas and Kumon, as well as medical clinics and insurance companies. Fitness centers were very active in the quarter also, with move-ins by F45 Training, Shapes Fitness and Pure Barre, among others. Specialty tenants like American Shaman, My CBD Organics and Your CBD Store had multiple openings in neighborhood centers. Grocery openings included Publix, Lidl and Grocery Outlet.

Notable move-ins for community centers included fitness centers like Club Pilates, Planet Fitness and Anytime Fitness; entertainment tenants like Regal Cinemas and Urban Air; and consignment/thrift stores like Plato's Closet, Texas Thrift and Goodwill. Community centers also saw expansions from medical service providers like CSL Plasma and Beltone.

Service tenants continue to dominate openings in strip centers, led by insurance companies and salons, although educational tenants are expanding in this space too. Small chain restaurants like WingStop and Tropical Smoothie remain active. Personal training studios like Fit Body Boot Camp targeted strip centers for expansion in the quarter as well.

Neighborhood centers top demand among small centers



Sources: CoStar, JLL Research

JLL | Achieve Ambitions

Greg Maloney
President & CEO
Retail Americas
+1 404 995 6315
greg.maloney@am.jll.com

Naveen Jaggi
President,
Retail Brokerage
+1 713 888 4087
Naveen.jaggi@am.jll.com

James Cook
Americas Director of Research,
Retail Americas
+1 317 810 7191
jamesd.cook@am.jll.com

Keisha Virtue
Senior Research Analyst,
Retail Americas
+1 954 990 0844
keisha.virtue@am.jll.com

About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. Our vision is to reimagine the world of real estate, creating rewarding opportunities and amazing spaces where people can achieve their ambitions. In doing so, we will build a better tomorrow for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of $16.3 billion, operations in over 80 countries and a global workforce of more than 93,000 as of September 30, 2019. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com.

About JLL Research

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.