



IS BRICK & MORTAR RETAIL DEAD? READ ON!

2018

THE YEAR OF BRICK & MORTAR RENAISSANCE



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There is early indication this has been one of the best holidays for retail sales in years!

Of course, that is heartening news for all of the tenants in the shopping centers we lease.

According to *Fortune*, year-end retail sales figures are up:

- U.S. retail sales were up 5.1% to over \$850 billion
- Online retail sales were up 19.1%

Hopefully, this news foreshadows positive earnings reports due out soon. While it may be a bit early to offer meaningful analysis, here are a few takeaways:

Many online and e-commerce brands opened their first flagship and pop-up stores this holiday season, reinforcing that brick and mortar is an important part of the consumer and shopping experience.

ThredUP, an online consignment store, has now opened several stores and pop-ups. *Warby Parker* is a trendy on-line eye frame company started by students who felt glasses were too expensive. Consumers

wanted the experience of trying on the glasses, so *Warby Parker* studied the marketplace, tested with pop-ups and now have nearly 100 brick and mortar stores. Of course, we all know that *Amazon* is now in brick in mortar as well. Why? Because it's another way to reach customers (profit) in a relevant and authentic way.

Retailers have become creative and generous with loyalty programs to try and make their store a top choice for customers.

Loyalty programs are offered across the board from mom-and-pop shops to discounters to high end department stores. For example, *Kohl's* offers a 5% reward rate to all customers whether



▲ PREVIOUSLY ONLINE-ONLY RETAILERS WARBY PARKER AND THREDUP HAVE OPENED UP BRICK AND MORTAR SHOPS ACROSS THE COUNTRY.

or not you use their store credit card. Within the last 18 months, *Kohl's* stock has risen from \$35 per share to over \$65 per share! *Nordstrom* also offers benefits with or without their store credit card as long as you are signed up for their revamped loyalty program: *The Nordy Club*. If you buy name brand cosmetics, most of you know they are usually the same price at any department store. Now at *Nordstrom*, these cosmetics will be shipped to you free of charge and you will also earn points. All this without stepping foot in the store and being tempted along the aisles to purchase other items! Free shipping by retailers has become an important part of the consumer decision on where to shop.

Millennials and Gen Z's are leading the way on sustainability in retail, which has become an important topic for the future.

Brands with a purpose of positively contributing to societal benefits and environmental sustainability attract buyers. *Bombas*, a sock company, donates a pair of socks to

charitable organizations for each pair purchased; following the one-for-one model popularized by *Toms Shoes*. *Flora & Fauna*, an Australia-based lifestyle shop, only sells vegan and cruelty-free products. Their offices are solar-powered and shipping is plastic-free and made with recycled materials. San Diego's own *Suja Juice* uses certified organic, non-GMO juices. Most of us wouldn't guess that 100% of *IKEA's* wood products come from sustainable sources in countries with a history of challenges related to forest management.

Brands that have not been able to adapt quickly or well enough to the changing times are on life support.

2018 saw the demise and decline of retailers who did not adapt. Take *JCPenney*, a store we have all shopped in that is now the last place we'd ever think to go. Shoppers want an authentic and relevant shopping experience which adapts to changing consumer tastes. If *JCP* has 1,000 orange love seats in the warehouse, those will probably stay on the floor

until they are sold. The uniqueness of places like *Arhaus*, *Room & Board* and even *Jerome's* are far more appealing places to find your next sofa.

This year showed retail profits in both e-commerce, where the focus is on speed and convenience, and brick and mortar shopping, where the focus is on consumer and shopping experience.

Stores that understand, embrace and adjust to the consumer will continue to thrive. Brick and mortar with convenient online alternatives is where today's retail is finding its sweet spot! ■

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