

2022 YEAR OF THE REBOUND



FLOCKE & AVOYER
Commercial Real Estate

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As we turn the corner on 2021, cautious optimism seems to be prevailing in dealing with the evolving conditions of a global pandemic, and Flocke & Avoyer is geared up for a strong year ahead. How the CRE industry responds into the first half 2022 will likely set the foundation for results over the next 24 months?

The pandemic's toll on U.S. commercial real estate is a tale of two markets. While some disciplines proved resilient – warehouses and distribution centers, life science, medical, certain types of retail and almost all multifamily – the fortunes of others - hotels, entertainment, fitness, and corporate offices – declined, we've seen it firsthand here in San Diego County.

Still, retail sales in 2021 closed out the year on a high note. Total U.S. retail sales rose 6.9% in December compared to the year 2020 and increased 8.1% versus pre-pandemic December 2019, according to Mastercard SpendingPulse. In 2021 retail proved to be resilient, pivoting to a focus on local consumers.



82%

Online sales growth
between August 2021
and August 2019

Here is a breakdown of sales in 2021 by sector according to MasterCard:

- **Apparel sales rose 46.3% year-over-year and 22.6% compared to 2019 (or YO2Y).**
- **Department store sales rose 19.1% YOY and 15.3% YO2Y.**
- **Electronics and appliance sales increased 16% YOY and 17.6 YO2Y.**
- **Grocery sales rose 8.3% YOY and 16.9% YO2Y.**
- **Jewelry sales rose 31% YOY and 27% YO2Y.**
- **Luxury (excluding jewelry) rose 48.6% YOY and 20.7% YO2Y.**
- **Restaurant sales rose 51.9% YOY and 21.1% YO2Y.**

Assessing the outlook retail real estate in 2022 and beyond, we must distinguish between non-permanent trends and long-term structural changes that challenge consumer behavior. In any attempt to model the future, we must consider how the pandemic has made deeper changes in how we live our daily lives – but disturbances in our daily lives allow for innovation in how we tackle business.

Trends to watch as 2022 kicks off:

Hard-Hit Retail Markets Will Experience Notable Recovery in 2022:

Activity at stores and restaurants were throttled as office employees worked remotely, lockdown, vaccination protocol persisted, and tourists stopped flocking to landmark destinations. Impacts from remote working and the slowdown in tourism are expected to pick up in 2022. Businesses that were impacted should make up some ground on markets that have already experienced recoveries. Despite the rise in omicron variant cases in California and across the country, business and leisure travel is picking up. Retail should bounce back strong in 2022.

Mall leasing activity is also climbing back, with 2021 Q3 leasing volume totaling 78% of historical average volume, up 37% from last year.

Commerce “E-volution”:

Retailers and brands spent much of the pandemic shifting their digital channels. For some it was the only way to stay afloat. Online sales continued to experience strong growth in December, up 13.5% YOY, and up 60.4% YO2Y, according to MasterCard. From the rise of online marketplaces to new ways to pay, retailers spent much of the pandemic reworking their digital platforms. E-commerce sales rose a record \$41 billion in the second quarter of 2020 according to the National Association of Real Estate Investment Trusts.

Experiential Retail: Livestreaming to reimagined stores, retailers quickly adopted or expanded curbside pickup programs, pushed “buy online pickup in store” options, and same-day delivery to give the best experience possible to the consumer. The



Target Drive Up Delivery improved and expanded to include alcoholic beverage deliveries in 2020 in response to the Covid-19 Pandemic.

question is of course, is that now the norm?

Uptick of Technology Since Covid-19: In every industry, the pandemic contributed to the uptick of technology. In commercial real estate, that is a trend that’s likely to continue and help with recovery. Companies and brands need to focus on how to better manage risks, minimize costs and increase transactions. Looking ahead, retailers focus on more ways to innovate.

One thing that can’t be predicted is how our office culture will live on? What would offices look like when the endemic arrives? The

traditional suit and tie, coffee on the commute to work, warm greetings to the people who managed to get to their desk and clock in. That construct no longer reflects our changing world. Work conditions have changed company to company, some are full time WFH, some have taken a hybrid model, and others are eager to get their office full again. It seems increasingly

improbable to expect a universal return to the office. Which begs the question, will coworkers show their ambitions through their wardrobe, or should we be prepared to make the switch from ties to t-shirts? Will we host a zoom happy hour or head down the street for a drink together? Pats on the back down the hall or liking comments in the group chat? Sure, this is a grey area and there is no one-size-fits-all when it comes to office culture. Of course, office culture will change over time, but the human nature of connecting with people will always live on. Take solace in your place back at the office, or the comfort of your own home – we’ve got a strong year ahead of us. Despite the challenges of Covid-19, 2021 was The Year of Resilience. We believe a moniker for 2022 will be The Year of the Rebound.