



A rise in omni-channel retail may deliver in more ways than one



Online sales increased steadily over the last two years, fueled partly by the pandemic. In 2021, e-commerce transactions made up 14% of retail sales overall and are expected to top \$1 trillion in 2022, compared to just over \$760 billion in 2020, according to the *Adobe Digital Economy Index*. This has challenged retailers with only brick-and-mortar locations and, in some cases, has resulted in the closing of physical locations. Meanwhile, some retailers have opted to only have an online store; this, too, comes with challenges in reaching customers – rising social media advertising costs being just one example. **With the pandemic in the rear-view mirror, where does the retail industry go from here? Based on current trends, we expect to see a resurgence of retailers diversifying to include or increase brick-and-mortar stores in an effort to capture market share. And this could also be a boon to some areas struggling with high vacancies.**

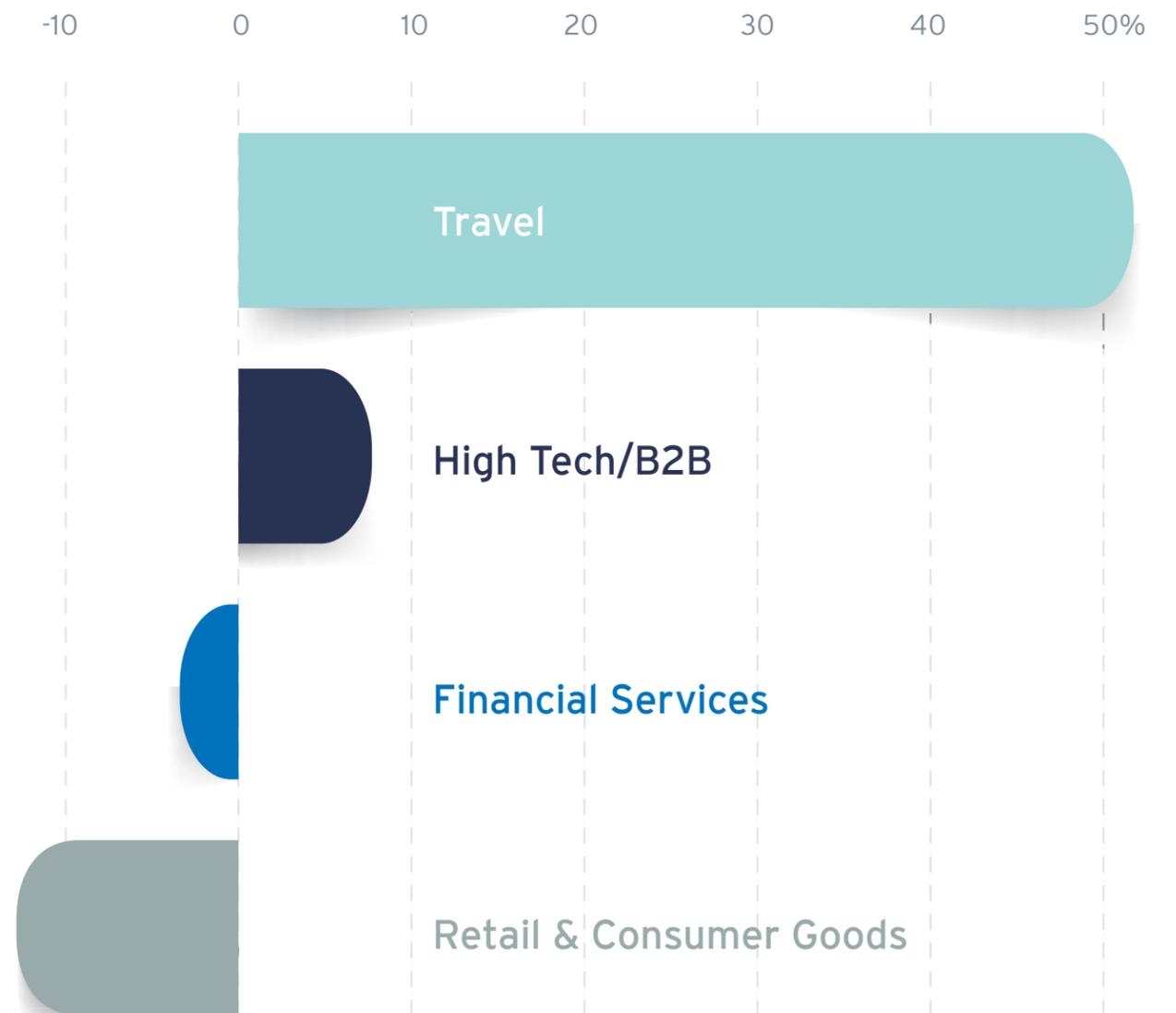


The importance of omni-channel

An omni-channel approach provides a seamless shopping experience across desktop, mobile and physical platforms. Even as online retail sales have grown, physical storefronts remain a major part of the retail experience, giving consumers an opportunity to engage with both people and products.

The Wall Street Journal reported that some retailers have expanded to brick-and-mortar due to a recent slow-down in e-commerce sales compared to the early months of the pandemic, as customers started revisiting physical stores. This supported a commonly held belief: Consumers like to touch and feel the product they are buying.

Year-over-year change in Google U.S. organic search visits (4Q 2021)



Further evidence was shared in a January 2022 report from Deloitte, which found that 55% of shoppers who began their product search online made purchases in a store. This shopping pattern has fueled a growing recognition that a combination of physical stores and websites produces the biggest payoff.

In 2021, shoe company Allbirds reported that shoppers who visited a physical location and the company's website spent 1.5 times more money than customers who only went to a store or shopped online. When Allbirds opened a brick-and-mortar store in a Boston neighborhood in 2019, its web traffic rose 15%, and the company saw 83% growth in new customers in the market. Similarly, home goods retailer Parachute reported that in markets where the company has stores, website traffic climbs 50%.

Online storefronts aren't free

Rising social media advertising costs have made physical storefronts more cost-effective in attracting customers. According to Meta, the parent company of Facebook, the average price per ad increased 30% year-over-year in the first quarter of its 2022 fiscal year. Customer acquisition costs range from \$100 to more than \$800 per customer, according to Emory University's Goizueta School of Business professor Daniel McCarthy, making leasing retail space more cost-effective than spending additional revenue via social media to gain customers. Additionally, privacy changes by Apple and Google's operating systems are making it harder for online retailers to target ads to potential customers.

The rise of clicks-to-bricks

Increasingly, online retailers are opening brick-and-mortar stores in lifestyle centers in suburban locations. According to Green Street, the predominate store growth plan pre-pandemic was major malls first, then street retail. Post-pandemic, retailers - think Warby Parker - are opening in those venues but also targeting suburban locations closer to shoppers' homes.

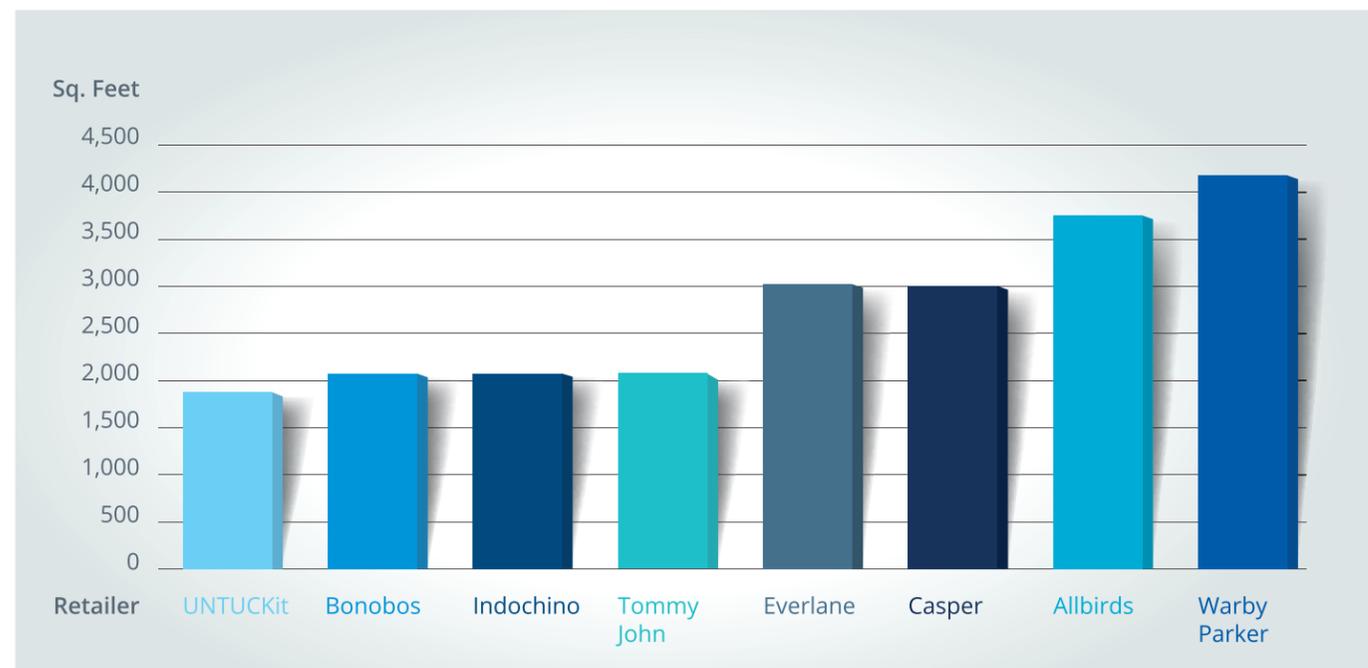
Retailers that decide to expand to physical stores typically select locations based on three criteria:

1. Clusters of loyal customers
2. Attractiveness of real estate opportunity
3. Ability to experiment with pop-up retail spaces or partnerships with big-name brands that already have physical locations

CoStar data shows that the general retail sector in the suburbs, made up of units averaging 1,000 to 5,000 square feet, is in high demand as it is easy to reconfigure and repurpose for the next tenant to occupy, and many people who work from home are nearby.

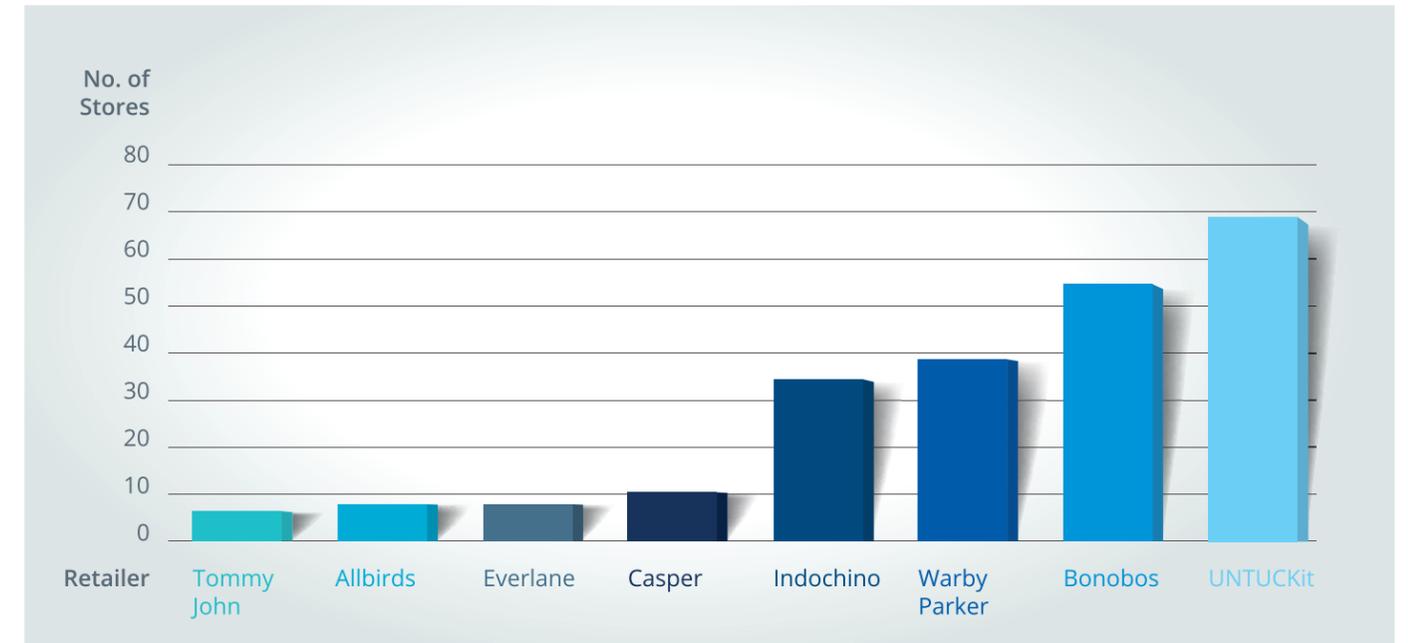
Keeping a close eye on these trends is important. Why? Although smaller than large-box retailers, future clicks to bricks could help alleviate some pressure on the retail market in areas that have struggled post-pandemic with elevated vacancy rates. Online brands like Bonobos, UNTUCKit, and Warby Parker, for example, have expanded across the U.S. with between 50 to 70 store locations. The average size of a storefront ranges from nearly 2,000 square feet to 4,000 square feet. This very small sample set alone generated 600,000 square feet of demand.

Average store size leased by online retailers



Source: CoStar

Online retailer store locations



Source: CoStar

These aren't the only retailers with plans to open physical stores. Allbirds is planning to open 16 to 17 new stores, Parachute 15 additional stores, and Wayfair three stores over the next year.

Of course, one size does not fit all. In the U.S., there are an estimated 250,000 - 350,000 online-only retailers, and it is highly unlikely that all of them will open a physical storefront. Yet even if 5% of them lease the average storefront size of 2,500 square feet, this would generate 31 million square feet to 44 million square feet of leased retail space - and this is on top of retailers looking to expand their brick-and-mortar locations. As demand rises, expect site selection to target high-traffic suburban malls and urban corridors within residential neighborhoods.

Author:

MAURICE HARRIS
 Manager - Research
 Research & Investment Analytics
maurice.harris@transwestern.com

For more info:

ELIZABETH NORTON
 Senior Managing Director
 Research Services
elizabeth.norton@transwestern.com

DOUG PRICKETT
 Senior Managing Director
 Research & Investment Analytics
doug.prickett@transwestern.com

Sources

Adobe. "Adobe: U.S. consumers spent \$1.7 trillion online during the pandemic, rapidly expanding the digital economy." March 15, 2022. <https://news.adobe.com/news/news-details/2022/Adobe-U.S.-Consumers-Spent-1.7-Trillion-Online-During-the-PandemicRapidly-Expanding-the-Digital-Economy/default.aspx>

Miranda, Leticia. "Online brands open stores in suburbs to be closer to customers." NBC News. April 7, 2022. <https://www.nbcnews.com/business/online-brands-open-stores-suburbs-rcna23030>

Rosen, Ellen. "Online brands try a traditional marketing strategy: Physical stores." The New York Times, March 23, 2022. <https://www.nytimes.com/2022/03/23/business/direct-consumer-retail-stores.html>

Thomas, L. "Why digital retail darlings Warby Parker and Allbirds are betting big on stores to grow ahead of public debuts." CNBC. September 17, 2021. <https://www.cnbc.com/2021/09/17/why-digital-warby-parker-allbirds-are-betting-on-stores-before-public-debuts.html>



transwestern.com/retail