

Corporate Partner Spotlight

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Retail Metamorphosis: Planning for Retail Space in a Post-Pandemic Era

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While many Illinois retail tenants were experiencing declining sales even prior to COVID-19, the global pandemic and associated stay-at-home orders have accelerated the shift to e-commerce. Many households that had been reluctant to embrace e-commerce are now taking advantage of technological advances and new ways to consume while reducing their risk of COVID-19 exposure. Preliminary national quarterly retail sales data from the Census Bureau indicates that e-commerce as a percent of total sales has grown significantly from 10% to 13% during the first six months of 2020 compared to the same period in 2019, representing an increase of 30% in year-over-year e-commerce sales. This surge in e-commerce is anticipated to alter the retail landscape and impact the demand for brick-and-mortar retail space in the years to come.

As the future of retail post-pandemic is uncertain, it is expected that many shopping centers throughout Illinois could struggle. Although convenience-oriented and entertainment retailers may see a resurgence post-recovery, larger traditional shopping centers and malls could experience a rise in vacancies due to the ongoing pandemic, e-commerce pressures and reduced brick-and-mortar retail demand. As retailers right-size their footprints, vacant shopping centers may struggle to attract tenants resulting in dark boxes with no viable retail tenant.

Downcycling is a natural response to vacancy. However, depending on local market conditions and physical constraints, some space may shift to non-retail tenants, like industrial and medical uses. The following uses are seeing growth due to COVID-19:

- **Industrial.** The rise in e-commerce has disrupted industrial warehousing and transformed the space requirements of the transportation, distribution and logistics industries. While gateway and multi-market distribution facilities tend to be newer, larger and located at key transportation hubs, there is a growing need for city and last-mile distribution facilities that are small to mid-sized. In some markets, there is opportunity to convert vacant retail boxes to fulfillment centers. Although not all retail boxes are appropriate for industrial use, many freestanding big-box stores located near population centers offer high ceilings, large parking lots and loading docks that can be retrofitted to meet warehouse needs.



- **Healthcare.** While traditional hospital and medical office space will still be needed in the future, many healthcare networks are moving to a hub-and-spoke model to offer more services in non-hospital settings to lower their costs. This shift, along with technological advances and altered consumer preferences due to the pandemic are impacting the location and format of real estate for healthcare. These "medtail" users typically desire easily accessible multi-tenant buildings in close proximity to population clusters, making many multi-tenant retail centers prime locations for certain low-acuity healthcare services. Depending on the services provided, space requirements could vary from 2,000 square feet to mid-size box.

While many communities are concerned about diminishing sales taxes, there is an opportunity to unlock significant economic and social benefits by planning for the transformation of retail space that would otherwise sit vacant. Although not all vacant retail spaces are candidates for adaptive reuse, understanding which spaces are more attractive for industrial and/or medical use can help communities support thoughtful use conversion. To plan for these changes, local governments can:

- Conduct a market study that assesses the performance and health of their retail assets in the broader regional and national context, estimates local consumer spending patterns and potential, and identifies market-feasible uses for the future;
- Work with planning, zoning, public works and other departments to address zoning, traffic and other challenges associated with adaptive reuse; and
- Consider public-private partnerships to support extraordinary costs associated with retrofitting space.