According to Business Insider (May 2019) it is expected that more than 7,000 store locations will close in 2019. (Payless Shoes, Dress Barn, Chico’s, Family Dollar) are companies with stores that have closed in the past year, to name a few). Not all these companies are going out of business completely; some are reducing the number of stores or reducing the size of stores in preparation for what many retailers believe to be a more significant correction.

Much of the “Retail Apocalypse” news has identified online sales as the culprit for store closings, with Amazon as the primary culprit. Amazon has definitely played a significant role (Amazon sales accounted for 49% of 2018 e-commerce sales) in the changes occurring in the retail industry, but online retail sales accounted for only 10% of total retail sales in the United States in 2017, but the percentage of sales is steadily increasing and is expected to reach 12.4% in 2020.1

There are many segments of the retail industry that are still experiencing growth, and, will continue to do so as long as the economic conditions stay strong. Brick and mortar store locations have proven to actually be more important to consumer shopping patterns than originally expected by many online businesses. The greatest areas of retail growth for the next few years are not e-commerce sales that exclude stores, but rather e-commerce that includes expansion of brick and mortar stores. The combination of online and brick and mortar create a halo effect for one another, increasing sales for the retailer whom uses both purchasing options. It has been shown if a store closes in one region, their online sales also decrease in that region (IHL G Aug 2019). The interdependent relationship of online/brick and mortar is why Amazon, Warby Parker, Casper and other retailers are opening brick and mortar stores as quickly as possible.

There are sections of the retail industry where sales have weakened. This is most apparent in soft goods and department stores. In 2017, Cowen Research estimates that the United States had twenty times the amount of soft goods/department store retail square foot per capita than Germany. This is obviously unsustainable and we are seeing the correction in that sector. Between 2017 and the first quarter of 2019 there was a reduction of 9,651 stores in the soft goods and department store sector. This is extremely apparent in the regional malls, where a majority of these store closures took place. Most notable closures include store locations of Macy’s, J.C. Penney, Sears, and Victoria’s Secret. The closures number does not include stores that are not being opened by retailers not expanding.

Other sectors struggling, although not nearly as much, are sporting goods, furniture, hobby stores, books and electronic stores, which range in a decline in sales (thru June 2019 per IHL Group, a retail market research firm) of 4.3% to 6.7% for year over year same store sales. The Dollar Store expansions seen in 2017 and 2018 have leveled off but there is a large increase in the number of “C” store (7-Eleven and others) expansions that have taken its place in this time period.

Grocery store expansion in the San Francisco Bay Area slowed when Amazon bought Whole Foods in 2017 and has not rebounded yet. Other parts of the country have seen an influx of new grocery stores such as Aldi, Lidl and Publix, none of which have yet located in the Bay Area.

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The shift in demographics and consumer preferences is also affecting retail shopping. The new Millennials and Gen Z generations seem to shop differently than preceding generations, often delaying the purchase of large consumer focused items (homes, cars,) until much later in life. Many couples that follow the trends of these demographic groups for shopping prefer used clothing and furniture items or subscription shopping programs like Stitch Fix which provide personalized shopping services online that customize clothing choices for the customers and then ship the selected items to them. The end result is the visible reduction the number of brick-and-mortar retail shops that sell these goods.

There are bright spots in the retail industry. Restaurant sales is one sector showing positive growth in the last 18 months (Jan 2018 to Jun 2019), with a sales increase of over $55 billion that elevates total estimated restaurant sales at $744 billion for 2019. Although looking at a year-by-year change, there was a one percent drop in sales from June 2018 to June 2019. This drop in sales likely results from food delivery charges borne by restaurant chains. Competing with the online food delivery services is a challenge for many restaurant chains.

While numbers for July and August are not yet available, anecdotal comments from the landlords in the Bay Area indicate construction and operational costs for restaurants are escalating and many restaurants are downsizing their prototype operations, or walking away from planned store locations altogether. Below is a list of some restaurant tenants that have announced expansion plans for 2019 along with the number of stores they intend to open.

![Plans for 2019 Restaurant Count Growth](image)

Source: IRI Group, Company Reports
In summary, the trend in retail is constant change. Much of that change will ultimately be positive for the industry, but there still may be more difficult challenges before stability is achieved. The unknown factor today is the state of the world economies, and the impact of the current trade war between the United States and China, both of which could have an impact the small gains retail has made over the last few years.