CBRE
GLOBAL RESEARCH AND CONSULTING

The Big Squeeze:

How Our Hourglass Economy is Affecting U.S. Retail Real Estate and the Way We Shop

CBRE

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THE U.S. RETAIL MARKET

faces a number of challenges as the economy continues to recover from its worst recession in decades. In this paper, we look at the effects of the recession on consumer sentiment and income trends, and reflect on how they are changing retail real estate. A main focus of this analysis is the increase in sales from online shopping and how this trend is impacting retailers and the space they occupy.

The slowing growth of the U.S. labor force, along with the aging population, will have implications for spending patterns and retailers' performance. The first section of this report provides an overview of the health of the U.S. consumer, examining current trends in spending. This is followed by a look at the growing gap in income distributions and how they will favor discount and luxury retailers at either end of the income spectrum.

Internet retailing has experienced staggering growth relative to total retail sales. The evolution of technology, coupled with demographics issues, has determined which retailing formats are likely to succeed. As e-commerce becomes more accessible, retailers are struggling to keep up with consumers' evolving shopping methods. In the current environment, a heightened search for in-store productivity among retailers and store operators will drive redevelopment strategies.

The final sections of this paper explore how these socioeconomic trends are changing retailers' consumer strategies and pushing the upper limits of e-commerce. The hourglass-shaped U.S. economy has resulted in a similar squeezing of retailers as they attempt to maximize opportunities at the upper and lower income distribution levels. Given the ease of shopping online and the continued forecasted growth of e-commerce, it is becoming increasingly evident that the strongest retailers will be those that incorporate a multi-channel retailing strategy.

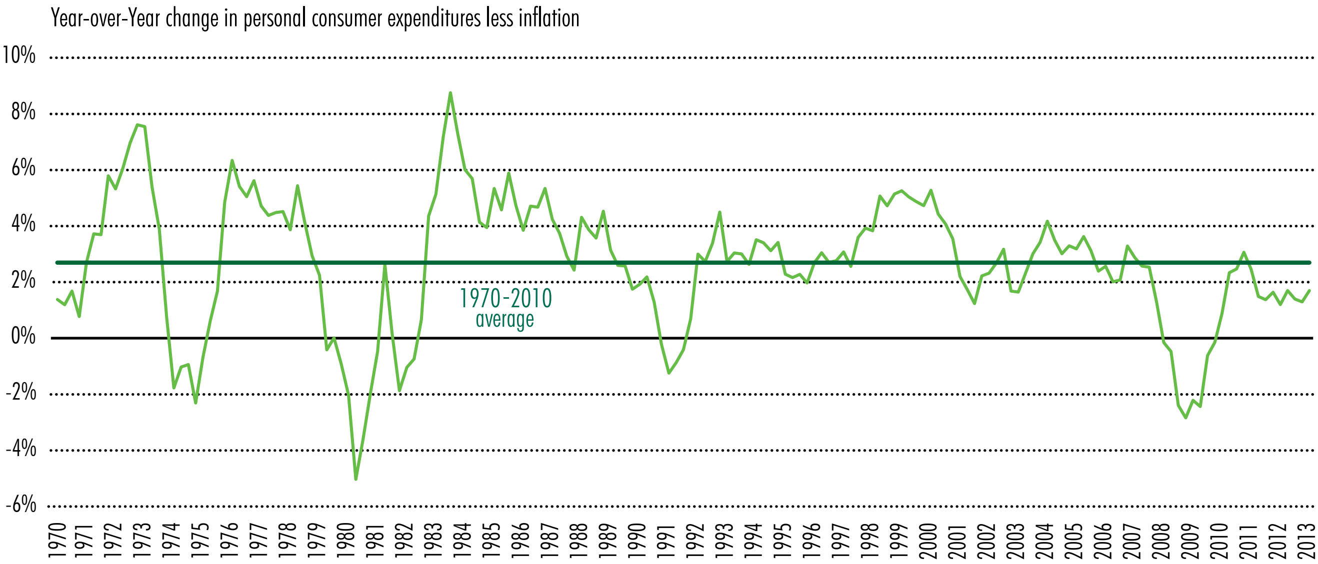
U.S. CONSUMER SPENDING CAPACITY

While U.S. consumer spending has experienced a remarkable recovery from the depths of the Great Recession, **overall growth remains below long-term** trend rates.

While U.S. consumer spending has experienced a remarkable recovery from the depths of the Great Recession, overall growth remains below long-term trend rates. At this stage of the economic recovery, it is expected that the recovery in consumer activity will continue to be restrained, especially given that, in 2012, the average payroll employment growth stood at 183,000 jobs per month, just slightly better than 2011. However, there is a seeming contradiction between the economic fundamentals and the consumer recovery: Despite a weak job market, real consumer spending has surpassed its pre-recession peak.

U.S. inflation-adjusted personal consumption expenditures fell by 3.3% between Q4 2007 and Q2 2009. Home prices fell nationally by more than 30% during this period, causing foreclosures to reach record highs. As a result, housing-related retail spending fell dramatically and has struggled to recover since. As job growth slowly increased, inflation-adjusted consumer spending reached its pre-recession peak, climbing 1.6% in 2011, as demonstrated in Figure 1. However, since then, the rate has dipped below the long-term average and is maintaining growth of just under 2%.

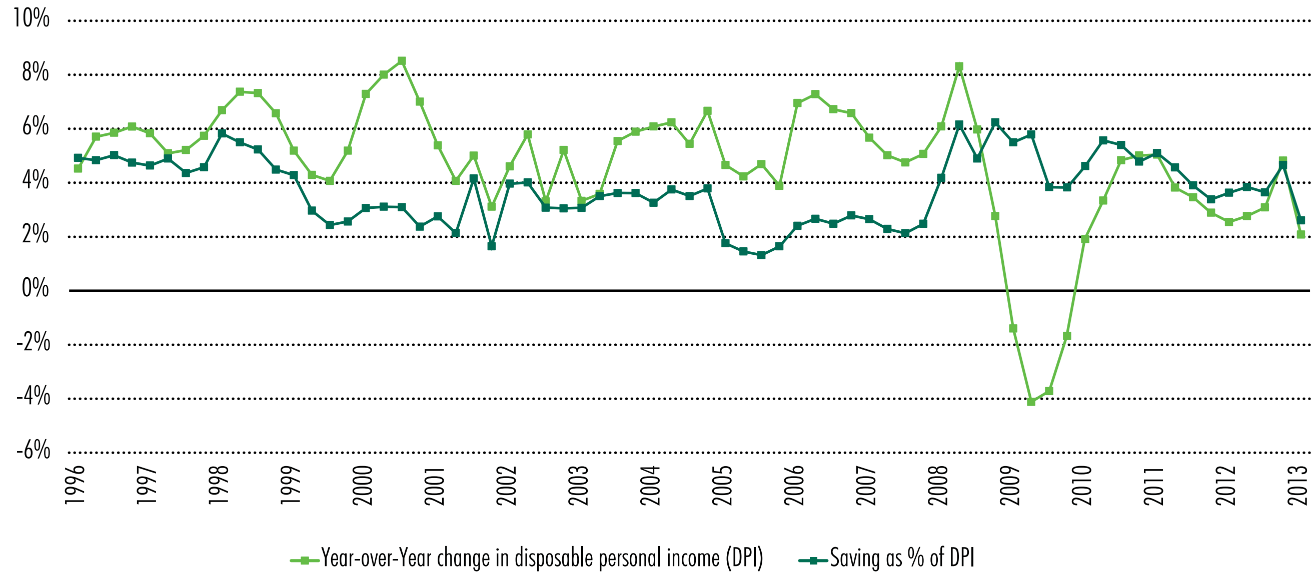
Figure 1. Real Growth in Consumption Has Slowed



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Q1 2013.

After a period of relative austerity, households increased their savings temporarily to nearly 6% of disposable income. However, gains in consumer spending over the past year appear to be fueled by an additional decrease of savings in recent quarters. Figure 2 examines the year-over-year growth in income and the savings rate. Though greatly increased since the recession, disposable personal income is still below the long-term trend. Looking at the amount of savings per disposable income, it is clear that while we have seen much progress in this area since the recession, consumers are still cautious about their earnings and the health of the economy overall.

Figure 2. Income Growth vs. Savings Rate



Source: Bureau of Economic Analysis, Q1 2013.

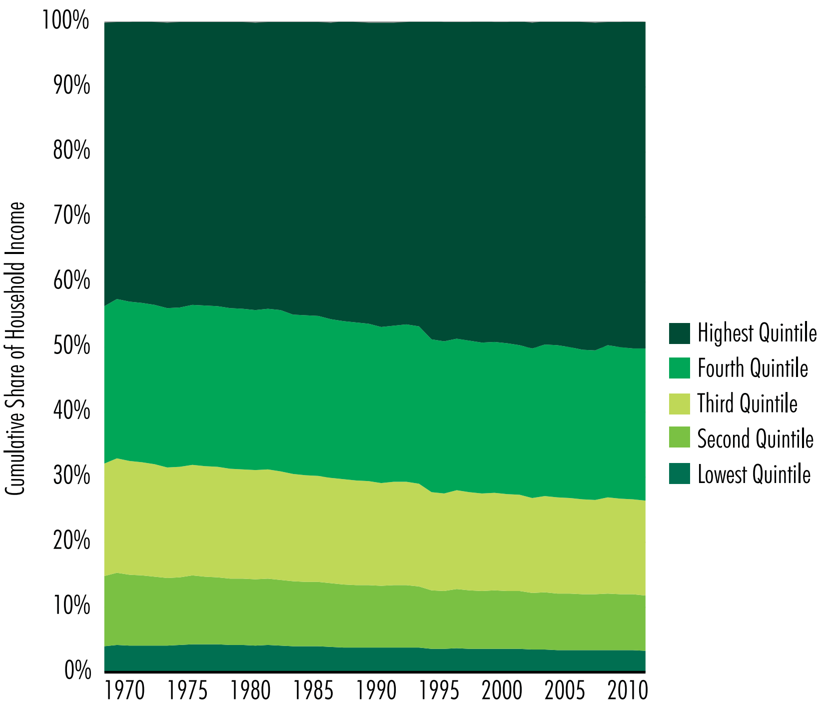
Over time, an increasingly large share of income accrued in the highest-earning households. As shown in Figure 3, the **highest quintile accounted for more than half of the income earned in 2010**, up from 43% in the mid-1970s.

The economy's performance is still underwhelming, with lower-than-average employment levels and disposable income low. Though income levels are recovering from recession levels, consumers are hesitant to spend. Some income brackets have been more affected than others by income-level changes, and continue to affect how and where consumers are spending.

INCOME TRENDS

Over time, an increasingly large share of income accrued in the highest-earning households. As shown in Figure 3, the highest quintile accounted for more than half of the income earned in 2010, up from 43% in the mid-1970s. Higher-income households have seen an even more disproportionate increase in their share of overall income. Meanwhile, the shares of middle- and lower-income households have steadily declined. These changes have altered the retail landscape over the past two decades, favoring both value-oriented retailers that cater to lower-income households, and higher-end luxury retailers that focus on higher-income households.

Figure 3. Diminishing Middle Class

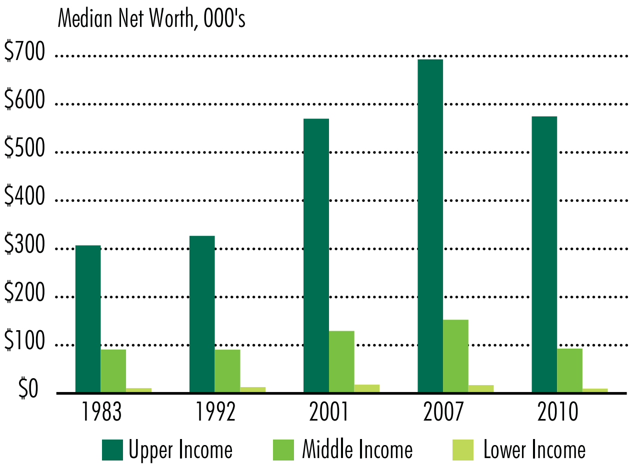


Source: Bureau of Census, "Income, Poverty, and Health Insurance Coverage in the United States", 2010.

While lower-income households have maintained income levels—due, in part, to the effect of transfer payments, earned income tax credit and other programs—middle-income households have suffered a generally larger decline in median income. Higher-income households witnessed a smaller decline in median household income than their middle-income counterparts, due, in part, to consistently lower levels of joblessness.

Differences in median net worth between the upper-income and the middle- and lower-income brackets continue to astonish, as shown in Figure 4. Since the recession, the median net worth of upper-income households has dipped to levels seen a decade ago. Though a significant loss, this barely compares to the loss seen in the other two income brackets. The middle-income bracket has lost two decades' worth of gains, while the lower-income has lost three decades of net worth gains since the recession. While the declines in net worth and incomes were substantial during the recession, the impact has been less severe for those households most likely to spend discretionary income on e-commerce sales.

Figure 4. Growing Inequality in Income Brackets



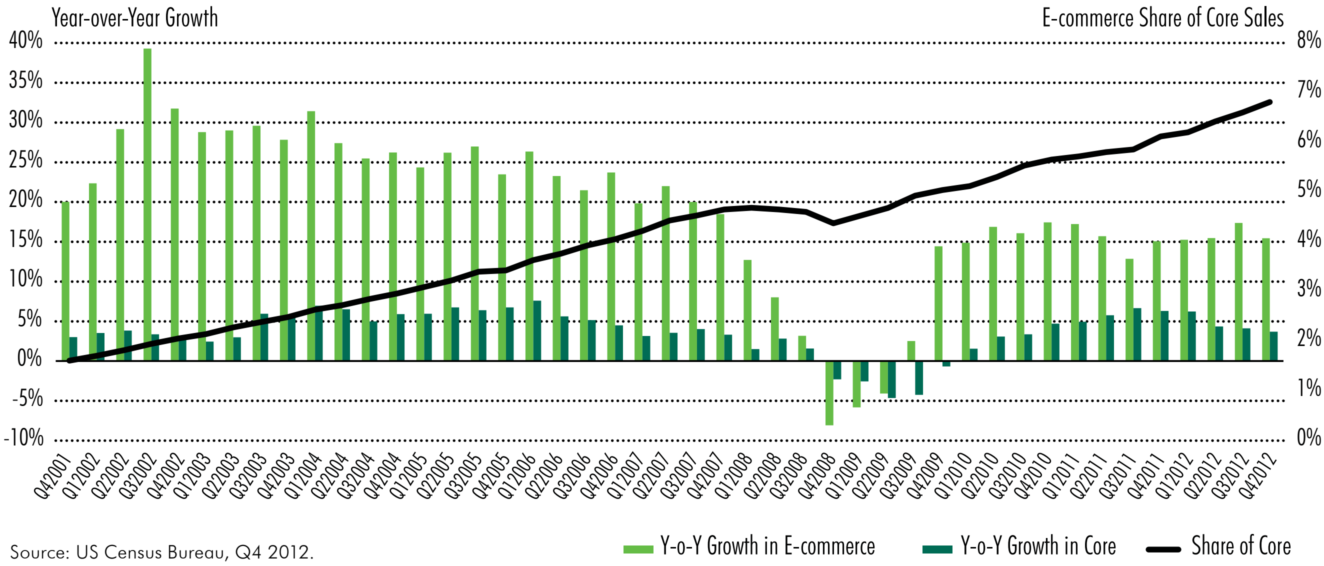
Source: PEW Research Center, 2012.

GROWTH OF E-COMMERCE

As seen in Figure 5, the growth in internet-related retail sales has accelerated in recent years. According to the Bureau of Census, as of year-end 2012, electronic and internet-based retailing accounted for close to 7% of core retail sales, nearly double the rate seen as recently as 2005. Growth in internet retailing has been remarkable, especially given that discretionary retail sales—which make up the largest component of internet retailing—have declined as a share of core retail sales over the last three years and have yet to recover.

There are several ways to examine the growth of e-commerce. However, since it is a rather new figure, looking at its growth levels over time will not yield the most accurate representation, as retail sales data have been available for much longer. Q1 2004 was used as the index period for Figure 6, mainly because it lies between the two most recent major recessions, and is also when social media took off with the launch of Facebook. As evidenced in this chart, e-commerce sales have been growing exponentially relative to the other retail sales categories. Housing, discretionary and necessity sales have been nearly flat in the first decade of the 21st century. While consumers are not spending quite as much as in previous years, increasingly they are also spending via a different channel – the internet.

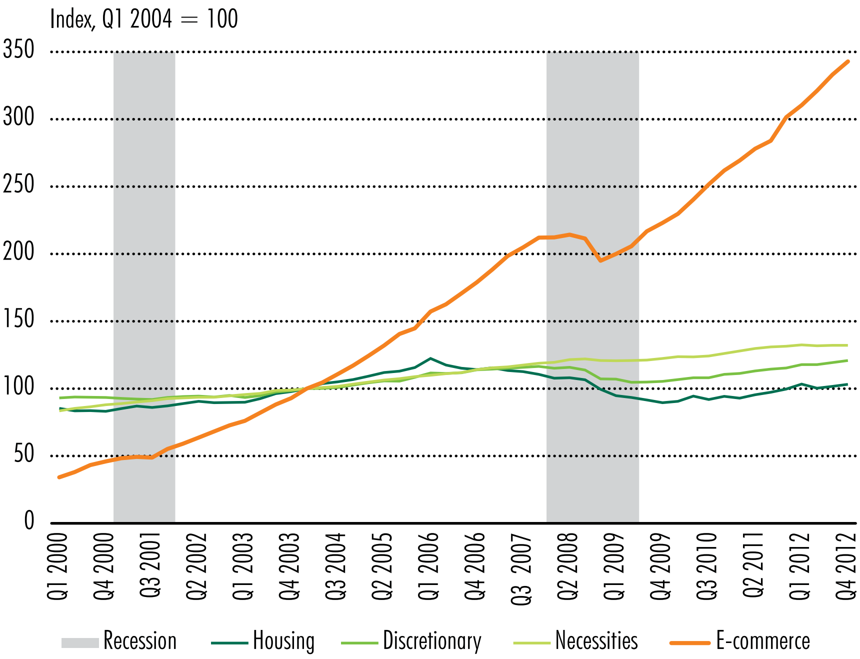
Figure 5. E-commerce Share of Core Retail Sales



Source: US Census Bureau, Q4 2012.

According to the Bureau of Census, as of year-end 2012, **electronic and internet-based retailing accounted for close to 7%** of core retail sales, nearly double the rate seen as recently as 2005.

Figure 6. Retail Trends Growth by Category

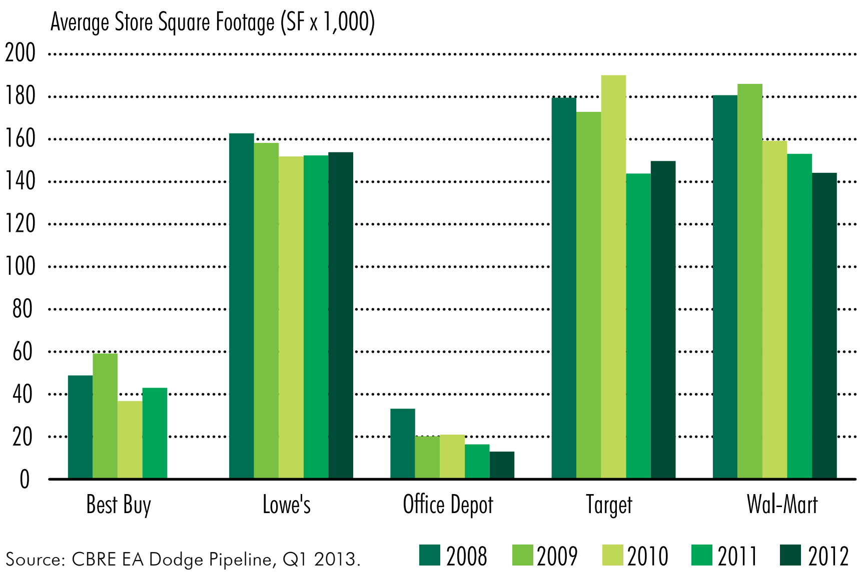


Source: US Census Bureau, CBRE Research, Q4 2012.

TECHNOLOGY SHAPES SPACE REQUIREMENTS

The increase in e-commerce sales is most noticeably affecting the space retailers occupy. According to CBRE EA Dodge Pipeline, the average size of new stores constructed for and occupied by retailers such as Office Depot, Target and Wal-Mart has shrunk significantly over the past three years. This is due to an increased focus on in-fill sites and the development of hybrid "bricks and clicks" strategies that reduce the requirement for showroom space and inventory storage.

Figure 7. Diminishing Store Size by Retailer



Source: CBRE EA Dodge Pipeline, Q1 2013.

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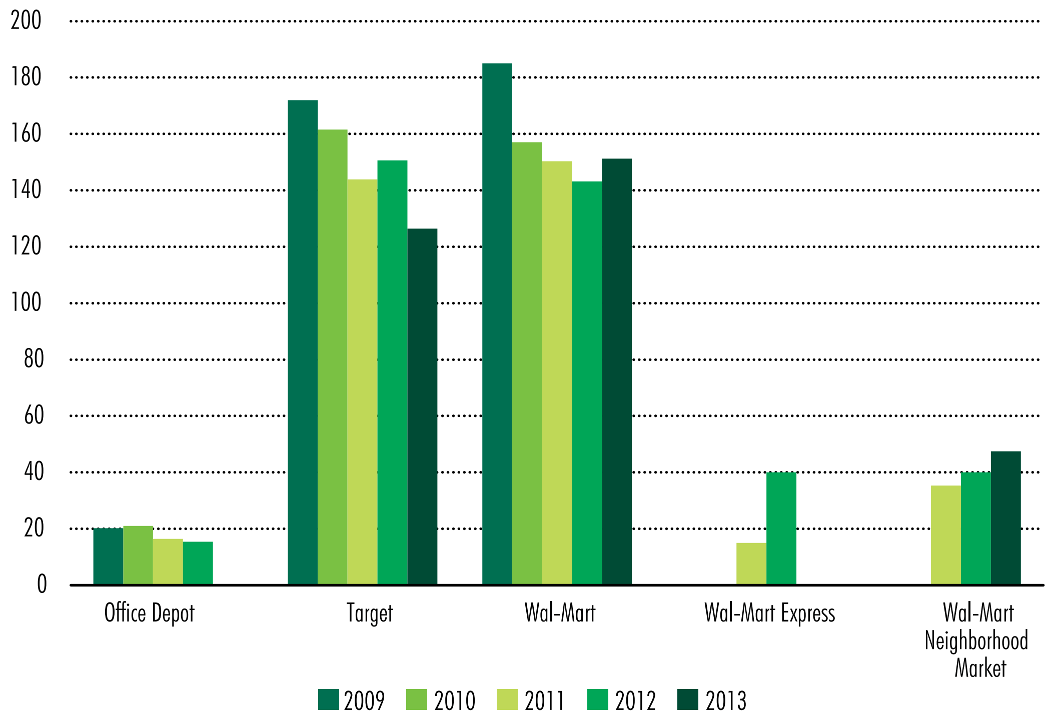
Indeed, technology will continue to play a key role in shaping consumer spending patterns and, as a result, retail space use. Retailers are continually searching for the most productive distribution channels, and many are refining hybrid bricks and clicks strategies that combine an in-store shopping experience with an online purchasing component. The focus is on directing the customer to the appropriate store, allowing the customer to seek consultation and assess quality differences, and then complete the sale either in store or online. The result of this strategy is a lower need for on-site inventory, and therefore, a decrease in space requirement.

As shown in Figure 7, large discount retailers, such as Best Buy, Target and Wal-Mart, have been downsizing the floor plates of their new stores. With additional competition from internet channels, such department store retailers may be under increased pressure to right-size their retail footprints in power center locations and search for higher-traffic areas and more productive sites. Adaptive regional mall operators may be well-suited to take advantage of this trend, offering prime locations and anchor space that can be reconfigured to suit big-box retailers' changing space needs. Indeed, the concept of the so-called hybrid regional mall—which may include a diverse mix of power center discounters, traditional in-line stores and department store anchors—is likely to become more common in the future.

Another major consideration for retailers is the services and products available in smaller-format locations. Big-box retailers are rapidly increasing their express and urban-format stores given the recent emphasis on city living. Figure 8 shows the decrease in size of an average big-box store as well as the increase in size of Wal-Mart Express and Wal-Mart Neighborhood Market stores. Target and Office Depot are also introducing city-format stores that have fewer products overall, and more products catered toward an urban lifestyle. Office Depot has recently begun providing small-business services to local customers at its urban-format stores, an offering not available when buying online.

Figure 8. Supply Trends by Retailer



Source: CBRE EA Dodge Pipeline, Q1 2013.

In an era of downsized retail growth expectations and lingering concerns regarding balance sheet liabilities, both mall owners and retailers remain stuck in capital conservation mode. This is causing a reassessment of priorities and retailers are shifting away from expansion and new development activities in search of lower-risk redevelopment projects and more productive retailing channels. Large mall owners, such as Macerich, Simon Property Group and General Growth Properties, are shifting their focus toward revitalizing and redeveloping their existing properties. Meanwhile, big-box retailers continue to shed less productive sites; this is in sharp contrast to the situation in 2005, when retailers' easy access to capital accommodated their rapid expansion into power centers in secondary locations.

SHOW-ROOMING

Books, music and video have seen the largest gains in the e-commerce sector. These categories were already well represented in 2000, with roughly 11.9% purchased via e-commerce. By 2009, this figure had grown to roughly 54%. Given the ongoing improvements in vehicles for music and now magazines through mobile platforms, it would not be surprising if the share of this segment continued to grow. The products in this sector require many repeat interactions, and there is no quality difference between buying a music CD from Amazon and purchasing the same disc from a local store. Furthermore, as CDs are phased out in favor of digital formats, hard copies of music are likely to become a niche occupied by specialty stores.

Ideally, the Census data on total retail sales by category would be compared to e-commerce sales data by the same categories. However, the degree of granularity in each of these series is somewhat different. The table in Figure 9 attempts to consolidate both data sets. The table shows the share of total retail activity that is captured by e-commerce for various broad consolidations of the retail market and highlights the share of this activity in 2000 versus 2009. Some of the sectors listed are essentially much broader than either of the figures represented in the total retail and e-commerce data sets.

E-commerce sales of electronics, appliances and computers grew from 10.1% of total sales in 2000 to 28.8% of total sales in 2009. It is interesting to note that if we look at the broader mail-order plus e-commerce sector, the total retail activity in these non-store formats for these goods stood at 42.1% in 2000 and 46.1% in 2009. Even before e-commerce really took off, consumers were purchasing these items in non-traditional ways, given the known quality of goods in this sector (a Dell computer could easily be ordered via catalog before e-commerce). All e-commerce growth in this segment will not come exclusively at the expense of store-based retailers.

Figure 9. E-commerce Share by Retail Merchandise Category

Share of Sector Activity	2000	2009
Books, periodicals, music and video	11.9%	53.5%
Clothing and clothing accessories (includes footwear)	1.3%	9.5%
Drugs, health aids and beauty aids	0.4%	2.4%
Electronics, appliances, computers and computer software	10.1%	28.8%
Food, beer and wine	0.1%	0.4%
Furniture and home furnishings	1.1%	11.4%
Office equipment and supplies	6.0%	28.3%
Sporting goods	1.6%	13.0%
Toys, hobby goods and games	4.7%	22.8%

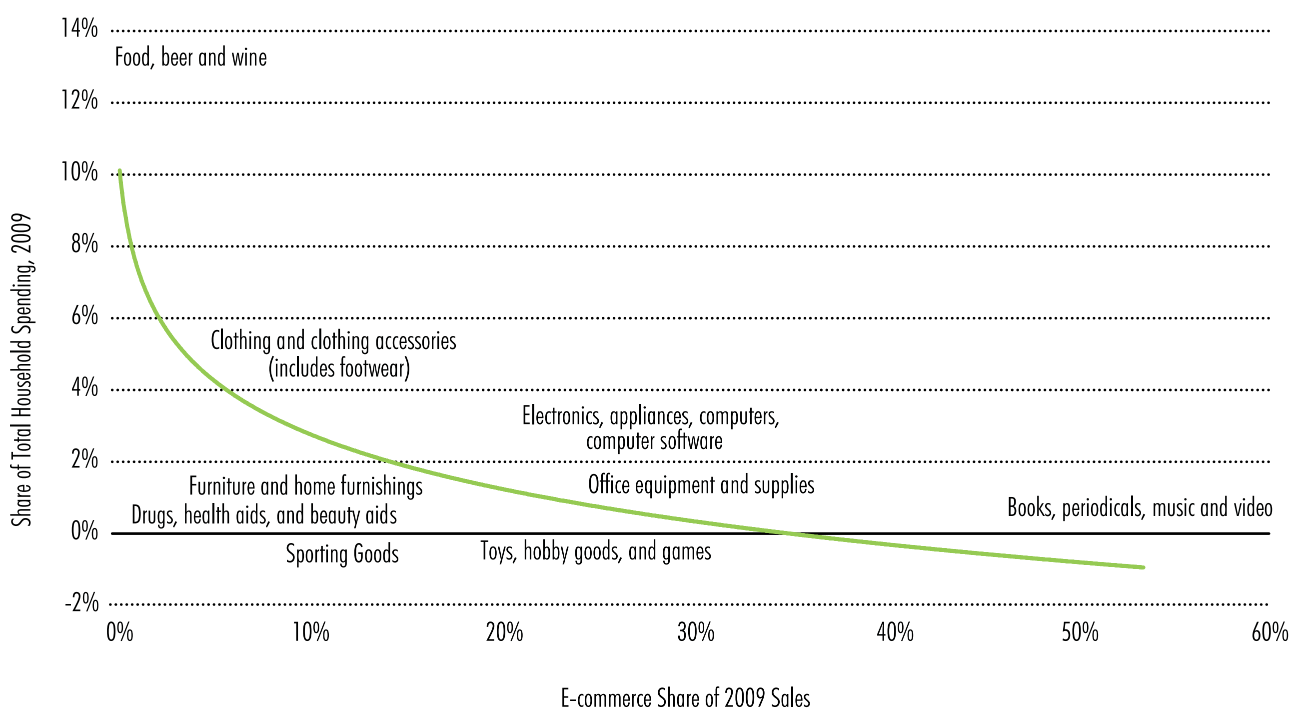
Source: US Census Bureau, 2009.

While the move to non-store locations for book, music and video sectors may be shocking to the owners of retail real estate, it is important to put these movements into the context of total spending. The Consumer Expenditure Survey from the Bureau of Labor Statistics suggests that the average U.S. household allocates just 0.2% of its total consumption activity to purchases of books and periodicals. As shown in Figure 10, the biggest component of shopping activity, the purchase of food, beer and wine, accounts for 13.6% of total consumption.

Clothing, electronics, office equipment and furniture/home furnishings are the four categories that owners of retail real estate should be concerned with during the next 10 years. These segments make up a much larger component of consumer spending compared to books and periodicals, ranging from 3.5% of total consumption activity (clothing) to 1% (furniture). As noted, these segments have also seen a moderate degree of penetration by the e-commerce sector, and this penetration is likely to grow. Ten years from now, the e-commerce shares of total retail in each of the aforementioned sectors will likely be larger than they are today. However, it is unlikely that any of these sectors will suddenly move to the same total online retail environment of books, music and video. In our estimation, the share of e-commerce sales as shown in Figure 10 will simply shift more to the right across all segment types, in line with total e-commerce sales.

The "showroom effect" is undoubtedly one of the reasons for the demise of stores selling the commoditized items just discussed. Consumers are now privy to price-comparison smartphone applications, which have made finding the best price simple. Shoppers will go to stores like Best Buy and review products. Then they will pull out their phone, scan the product's barcode and find the exact same product selling at a discount online. What's more, they can make the purchase right

Figure 10. E-commerce Share of Total Sales vs. Total Household Spending

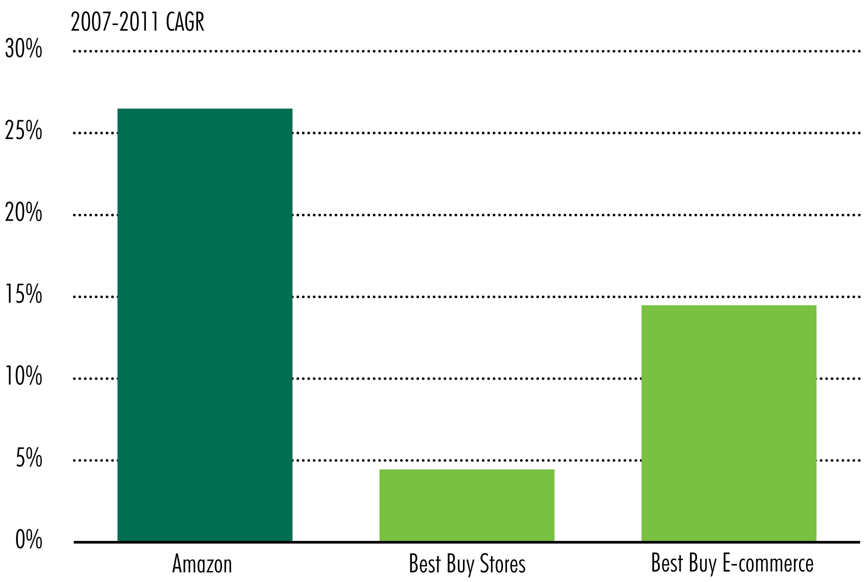


Source: US Census Bureau, 2009.

then and there on their phone. Figure 11 shows how Amazon has been profiting from Best Buy serving as their "showroom." From 2007 to 2011, Amazon sales grew at an annual rate of more than 25%, while Best Buy's store sales grew by less than 5% per year. Even Best Buy's e-commerce sales pale in comparison to Amazon's growth, with barely 15% annual growth in recent years.

Amazon has been profiting from Best Buy serving as their "showroom." From 2007 to 2011, Amazon sales grew at an annual rate of more than 25%.

Figure 11. Retail Sales, Amazon vs. Best Buy



Source: RetailSails, Amazon, 2012.

Companies have been addressing this issue recently by adjusting their marketing strategies. For example, Target announced that it will provide in-store price-matching year-round—an offering previously only available during the holiday season. This will give the company a competitive edge similar to Wal-Mart's price-matching services. Other companies are attempting to overcome this issue by offering a superior in-store experience. Apple is a prime example of a retailer with exceptional sales despite the fact that its products can be purchased at other retailers and online. Customers continue to show loyalty to Apple because of its branding techniques and the "Apple experience" that can only take place in one of their stores.

WHAT'S NEXT?

One of the most seemingly impenetrable categories in e-commerce sales is food, beer and wine. Though comprising one of the largest shares of total consumer expenditures, food and beverages have accounted for a relatively small proportion of internet sales. Despite obvious obstacles to circumvent, including freshness of products and the necessity of same-day delivery, groceries are the next frontier for e-commerce. Grocery-anchored centers are seen as a secure retail format for investors, since it is currently a totally bricks-and-mortar business. Consumers have traditionally needed to visit a store to buy their food, bringing traffic to a retail center.

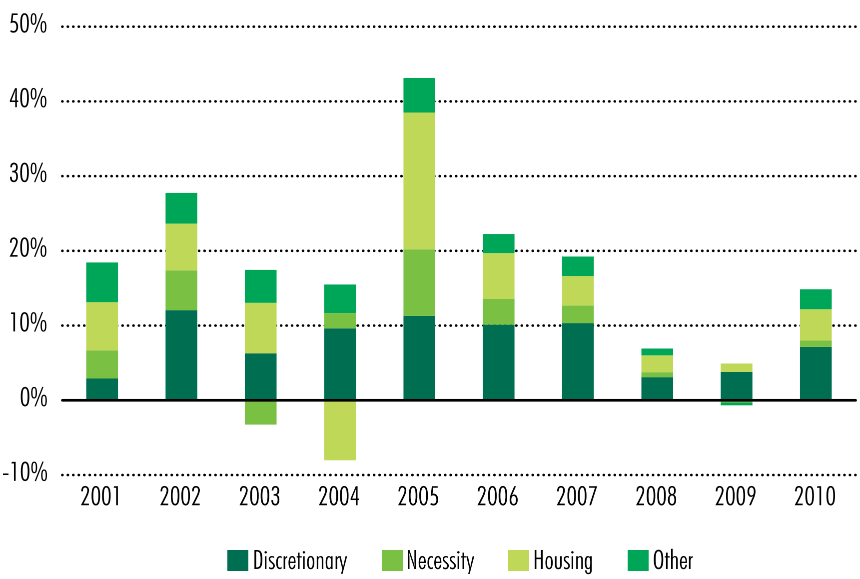
However, online retailers are now encroaching on this untapped sector, by tackling the issue of same-day delivery (this topic will be explored further in an upcoming report focusing on which retail formats are most immune to internet exposure, and how they will react to stay competitive).

HOURGLASS RETAILERS

Segmented retail sales tell us the most about how consumers are spending and what they are buying. Reviewing this segmentation for e-commerce sales tells a very informative story about what shoppers are purchasing online. Figure 12 breaks out e-commerce sales by the spending categories of discretionary, necessity, housing and other. Consistently, the greatest percentage of e-commerce sales is for discretionary items. Since the recession, while overall expenditures have greatly decreased, discretionary items still comprise the largest piece of the e-commerce pie.

Consistently, the greatest percentage of e-commerce sales is for **discretionary items**.

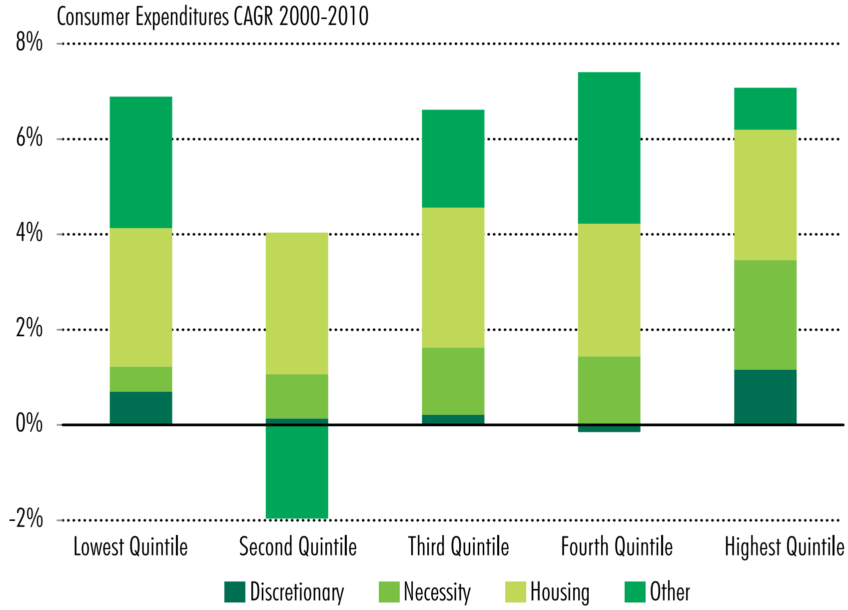
Figure 12. Discretionary Sales are Greatest Portion of E-commerce Sales



Source: US Census Bureau, CBRE Research, 2010.

Who is spending discretionary money? Looking at consumer expenditures in 2010 compared to 2000 by income bracket, the highest and lowest quintiles experienced the greatest compounded annual growth in discretionary spending. Discretionary spending for the second, third and fourth quintiles grew either infinitesimally or negatively from 2000 to

Figure 13. Consumer Expenditures by Income Bracket



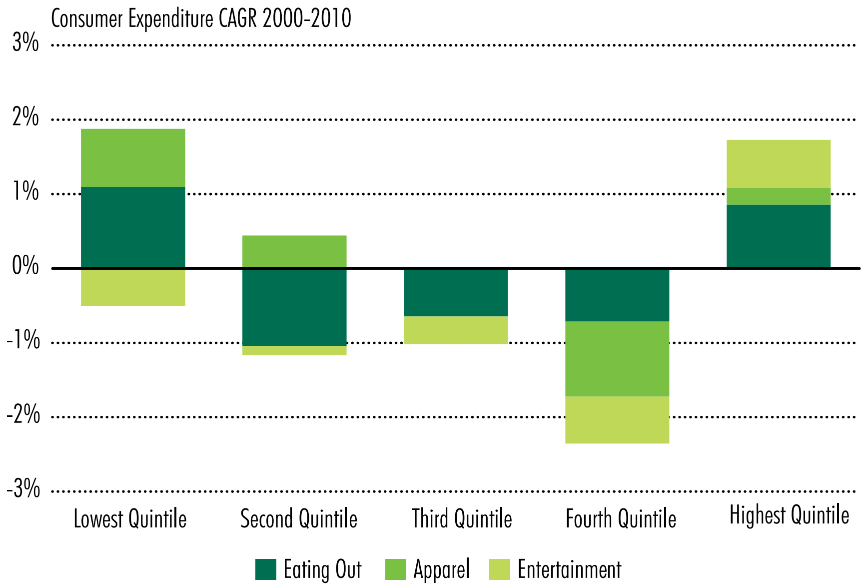
Source: US Census Bureau, CBRE Research, 2010.

2010, as shown in Figure 13. This demonstrates that over time, the middle-income tier has been feeling a greater squeeze in spending than have the lowest and highest quintiles. It has been shown that the middle-income bracket has seen the least amount of growth in income, and therefore their discretionary spending has not grown either.

A breakdown of discretionary spending relative to total expenditures by income tier further speaks to this "hourglass spending." Figure 14 looks at the growth in spending from 2000 to 2010 by discretionary expenditure category. Across the board, the growth in discretionary spending by category has been very minimal—less than yearly inflation. However, the

The highest and lowest quintiles experienced the greatest compounded annual growth in discretionary spending.

Figure 14. Discretionary Spending by Income Bracket



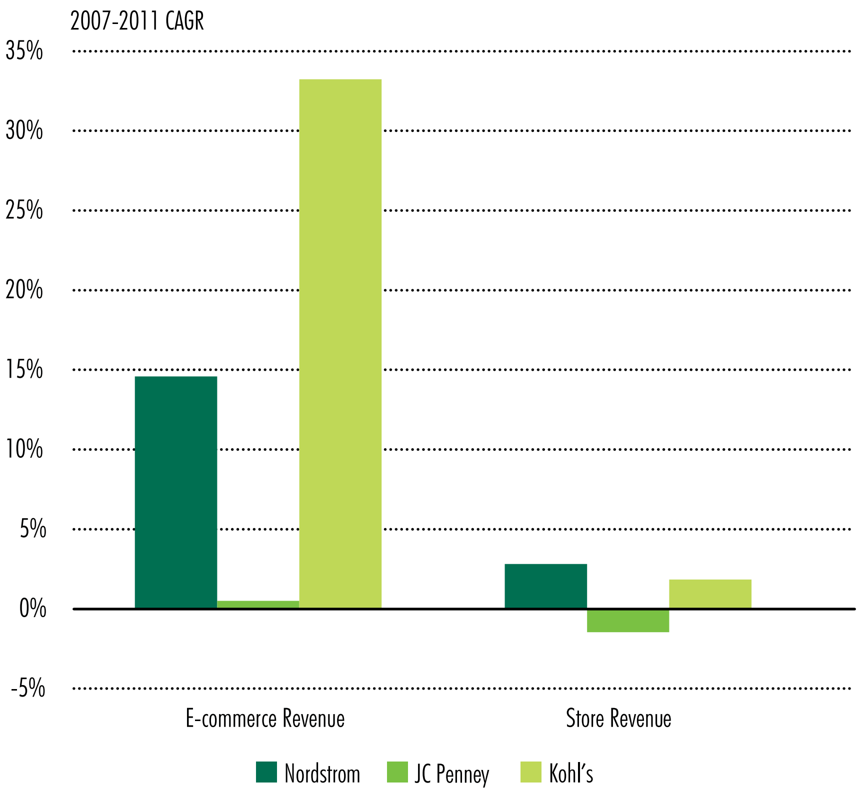
Source: US Census Bureau, CBRE Research, 2010.

lowest and highest quintiles have had the most positive growth. Notably, the third and fourth quintiles show no positive growth in the discretionary spending categories outlined in Figure 14. This demonstrates that there is a hollowing out of the middle-tier brackets' discretionary spending.

If the mid-range consumers are not spending as much, then **they are no longer the ideal target for retail market consumption.**

Retailers have become privy to this notion of hourglass spending and have adjusted their targeting strategies accordingly. If the mid-range consumers are not spending as much, then they are no longer the ideal target for retail market consumption. Figure 15 focuses on three retailers that cater specifically to upper-, middle- and lower-income shoppers, respectively. Nordstrom and Kohl's have posted significant annual compound growth over the past four years in both e-commerce and store revenues. JC Penney, a long-time mid-range department store, has struggled immensely since the recession, with minimal e-commerce revenue growth and negative store revenue.

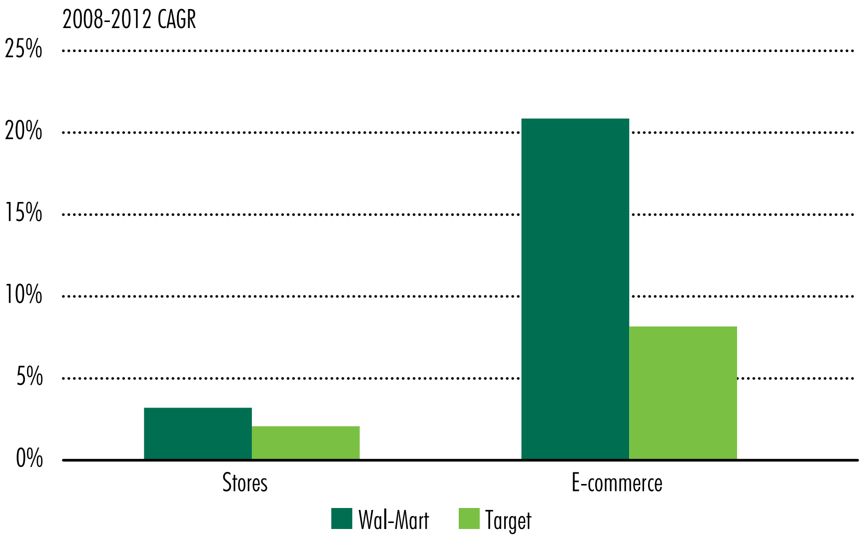
Figure 15. Middle Tier Retailers are Struggling



Source: RetailSails, 2012.

Interestingly, since the recession Kohl's has seen e-commerce growth of nearly 35%, compounded annually. Retailers are aware that consumers have less discretionary cash to spend, and are searching for a bargain when they shop. Consumers are looking for the most efficient way to buy, in terms of both time and money spent, and, as a result, are shifting their shopping, more and more, to bargain retailers' websites.

Figure 16. Strong Sales for Big-Box Retailers



Source: RetailSails, 2012.

Today's modern consumer lives a multi-dimensional life, and will shop in the most **convenient and cost-efficient** way possible. The retailers that have recognized this and have combined **online and offline shopping strategies** have been most successful in the post-recession retail world.

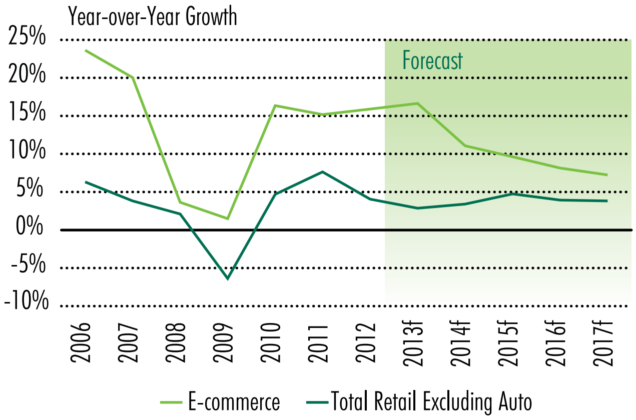
Big-box stores that provide one-stop shopping to the lower-income tier have seen some of the largest increases in e-commerce spending. While they may be decreasing their store footprints, that trend has not greatly affected the increase in store revenues over the past four years. Figure 16 shows that both Target and Wal-Mart have been prospering from lower price points since the recession. Online and in-store, consumers are looking for the best deal and big-box retailers are providing these bargains in a multi-channel format. Wal-Mart and Amazon have been in direct competition with e-commerce sales, both being retailers that sell commoditized items at a discount. Amazon has been the winner in this battle, but Wal-Mart has also enjoyed success from the demise of stores like Best Buy.

The very evident squeezing of the middle class has led to a greater concentration of spending among both the lowest- and highest-quintile earners. This has resulted in weakened sales for mid-range retailers such as JC Penney. The hourglass effect on the economy has influenced not only how much income each bracket is earning but also how they are spending discretionary income and where.

UPPER LIMITS OF E-COMMERCE

The e-commerce sector will continue to grow at an annual pace of 7.2%, while total retail sales, excluding automobiles, will grow at a pace of 3.8%, as shown in Figure 17. Such disparity in the growth rates over an extended period can lead one series to overtake the other. However, the retail sector is so large that it would take years to catch up. Total retail sales, excluding autos, came in at \$3.94 trillion at the end of 2012. Taking the estimates of the size of the e-commerce sector from Forrester Research, the share would be 6.5%. The sector is forecast to grow to \$370 billion by 2017.

Figure 17. Growth in E-commerce Sales vs. Total Retail Excluding Auto



Source: Forrester Research, CBRE Research Calcuations, Q4 2012.

Forrester Research produces a forecast of e-commerce sales in the U.S. The forecast reflects the notion that as e-commerce sales continue to grow in importance relative to total retail, the pace of growth in the sector will naturally slow. Forrester estimates total e-commerce activity of $262 billion for 2013 and is forecasting double-digit growth in this sector through 2014. Figure 17 considers the forecast of these sales relative to total retail sales, and suggests that by 2016 the e-commerce sector will be approaching 9% of total retail sales, excluding auto.

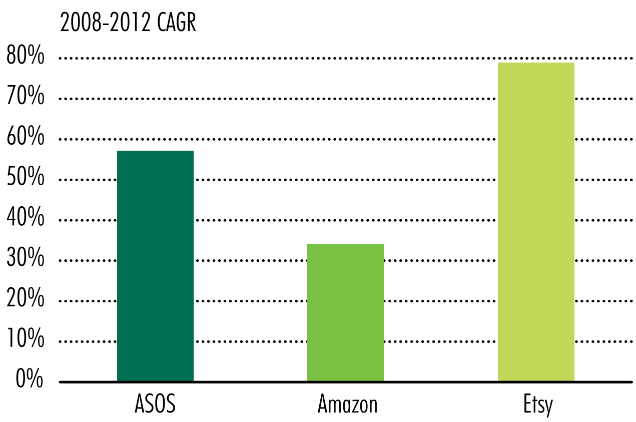
While growth in sales share from 6.5% to 9% might seem like a small figure, to some critical portions of the retail market such figures are very significant. In the sales of books for instance, it is common knowledge that store-based retailers have steadily lost ground to internet sales. Over time, as the e-commerce sector grows, it will continue to bleed away from store-based sales. If one takes the figures from Forrester Research as a given, then store-based retail sales will only be growing 3.9% by 2016. Functionally, what is it that these e-commerce solutions are providing that has changed the game for the retail market? Can these factors actually eliminate the need for in-person shopping?

The value of time spent shopping is quite high for consumers at the upper end of the income spectrum, and e-commerce tools help these consumers narrow their choices. When purchasing a stove, for instance, e-commerce tools help a consumer pre-select one or two retailer showrooms to visit, as opposed to blindly patronizing several in search of the right product. These showroom locations are still important, as they allow consumers to twist the knobs of the stove and see it in person. But the consumer now may decide to search for the same model online for less, rather than purchase from that showroom.

In the long run, at least, shopping should ultimately divide itself among the retail channels. The e-commerce business is now dominant for repeat purchases for which quality is known, or for purchases of commodity goods where quality is not important. For single purchases, and for more fashion-oriented and unique goods, a number of issues will determine the extent to which other venues will substitute for direct contact.

A number of e-commerce retailers have been very successful operating in an online-only format. Amazon has been the longtime leader in rethinking how people shop. New retailers, such as ASOS, which provides trendy and inexpensive clothing, and Etsy, a virtual marketplace for handmade goods, have also prospered by following Amazon's model. These new retailers do not sell commoditized items but, rather, unique products that can't be found elsewhere. Figure 18 explores the phenomenal sales growth these companies have experienced. In search of balance, some of the most successful retailers have been employing a multi-channel retailing strategy. By adding

Figure 18. Sales Growth for E-commerce Only Retailers



Source: ASOS, Amazon, Etsy Investor Relations, Q4 2012.

an e-commerce component to a traditional brick-and-mortar store format, these retailers provide consumers with the option to buy online or shop in store—or even buy online and pick up the product at the nearest store location. Today's modern consumer lives a multi-dimensional life, and will shop in the most convenient and cost-efficient way possible. The retailers that have recognized this and have combined online and offline shopping strategies have been most successful in the post-recession retail world.

Regardless of the avenue in which consumers shop, customers tend to show loyalty based on positive experiences, whether online or in person. Conversely, following a bad shopping experience, 89% of shoppers will decide to purchase from a competitor[1]. Additionally, U.S. shoppers will typically tell 24 people about negative experiences with customer service, but they only tell about 15 people about positive shopping experiences[2]. Building brand loyalty is key to a retailer's success—a 5% increase in customer retention can increase profits by 125%[3]. Why would a customer return to a store if she felt as though her business was not appreciated?

Technology is advancing with consumer needs so much that the internet is doing the shopping for the customer. An example of this new phenomenon is hukkster.com, which alerts users when items they have "hukked" (i.e., added to a list of desired products) have gone on sale. It is becoming increasingly easier and more convenient for consumers to shop online, and retailers not incorporating e-commerce strategies into their operations are falling behind.

Multi-channel retailing can yield success stories for the retailers themselves, but not necessarily the real estate they occupy. The shrinking of store sizes is inevitable, as consumers' shopping patterns and preferences have fundamentally changed. Investors with retail assets should focus on the retailers that are looking to combine brick-and-mortar and e-commerce strategies.

[1] 2011 Customer Experience Improvement study, Harris Interactive
[2] 2012 Global Customer Service Barometer, American Express
[3] Bain & Company

CONCLUSION

The retail sector continues to overcome a number of challenges that will impact the future performance of retailers and their brick-and-mortar stores. Recent indicators suggest that real consumption growth remains below its long-term trend, which reflects the impact of sluggish income growth, weak consumer confidence and the negative effect of declining household wealth. Nonetheless, consumers' balance sheets and capacity to spend have significantly improved since the beginning of the recession.

The continued growth of online shopping and the evolution of internet technology will have positive impacts on the ease of buying for consumers, but will have negative implications for retail real estate. The prevalence of online shopping has resulted in the demise of commoditized purchases from brick-and-mortar stores, and is manifested in smaller floor plans. Due to a widening of the nation's income distribution, there has been a rather sharp divergence in retailers that serve the opposing ends of the income spectrum. Those retailers that have traditionally served the middle have been largely squeezed out of the winners' circle.

The retail landscape will be shaped by the continued search for productivity on behalf of retailers and property owners, as well as changing demographics and the impact of technology. Increasingly, retailers will emphasize their internet operations as a means of directing traffic toward their stores and engaging consumers through diverse channels. This multi-channel strategy will ensure future success for not only retailers' sales, but also for the real estate they occupy.

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