AGREE REALTY
RETHINK RETAIL

AGREE KNOWLEDGE BASE

End of an Era:

THE DEMISE OF GENERAL MERCHANTS

CONTENTS

Executive Summary

Over the past few decades, the retail landscape has shifted dramatically. Among the hardest hit sectors have been general merchants — traditional department stores, broadline "general merchandise" chains, and big-box retailers carrying a wide assortment of non-specialized goods. Once prominent anchors of shopping centers and malls, many of these operators are now struggling with profitability, relevance, and ultimately, viability. While the demise of Sears and the challenges of JC Penney have been well-documented, the day of reckoning for the broader category still is yet to come.

This whitepaper explores the underlying structural, competitive, and technological pressures driving the decline of general merchants, while assessing the implications for the net lease sector.

General Merchants and Their Historic Role

General merchants broadly include department store chains, broadline big-box retailers, and hybrid "everything-store" formats. These retailers were once reliable anchors in malls and power centers, drawing traffic and offering broad assortments with scale advantages. Over time, general merchants started facing key competitive pressures such as discount and off-price retailers, category killers, and the emergence of ecommerce that challenged the traditional business model of larger store footprints that offer a wide selection of goods, often over 300,000 stock keeping units ("SKUs")[1].

> The emergence of off-price retailers such as TJX and Burlington in the 1970s marked a pivotal shift in consumer behavior, drawing value-oriented shoppers away from traditional department stores and broadline chains.

As these competitors expanded and captured market share, the historical advantages of scale and assortment eroded, leaving general merchants increasingly vulnerable and paving the way for continued disruption explored in subsequent sections of this report.

LACK OF GROCERY OFFERING & OTHER DIFFERENTIATORS

Most general merchants do not offer full-line grocery, which limits their ability to drive consistent, high-frequency foot traffic compared to retailers, like Walmart and Costco, who have robust grocery offerings. Without grocery, general merchants miss out on essential, recurring trips that build customer loyalty and increase cross-shopping opportunities throughout the store. Most grocery stores average ~1.5 visits per week, with 60% of shoppers visiting the store more than once weekly[2]. Comparatively, general merchants average 1 – 2 visits per month, often driven by seasonal items or promotions[3].

Additionally, many department stores and broadline format retailers are struggling as consumers have many specialized alternatives such as off-price retailers, discounters, and pure plays. General merchants no longer serve as a distinctive draw compared to more specialized formats, as category specialists have captured share across core categories – such as Ulta in cosmetics; Walmart, Target and Costco in basic apparel; and Dick's Sporting Goods in sporting goods. This further fragments demand and reduces traffic to general merchandise stores.

MARGIN COMPRESSION

General merchants face significant margin pressure given their large real estate footprints and general and administrative expenses related to inventory and labor, while competitors in other categories operate much leaner with reduced staffing needs. Bureau of Labor and Statistics data shows that retail wage inflation increased by an average of 4.5% per year over the last five years, while rent expense has grown at a 4.6% CAGR over the last twenty years, increasing to a CAGR of 7.8% in the last five years[4]. Higher costs continue to raise the hurdle rate for keeping stores open, especially for undifferentiated general merchants with thin margins.

Over the years, general merchants have seen a decline in employees per store, fueled by increasing automation such as self-checkout and overall headcount reduction. While this should serve to reduce cost and expand margins, other capital expenditures are required given the rise in buy online, pick up in store ("BOPIS") and other omni-channel initiatives. Few legacy general merchants have the balance sheet capacity to make these additional investments as they struggle with profitability.

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OMNI-CHANNEL ADAPTATION

A successful omni-channel strategy requires heavy capital investment as well as an expanded store footprint and distribution network.

Walmart, for example, already operates 29 dedicated ecommerce fulfillment centers to support its U.S. digital operations. It also uses its store footprint to fulfill some of these orders. Walmart can ship or deliver directly from ~4,500 of its U.S. stores and offers pickup in ~4,600 stores[5].

Target heavily utilizes its store fleet to support its online operations. Over the last three years, more than 96% of its annual merchandise sales were fulfilled through its stores[6].

Costco has enhanced its shipping speed and minimized its dependency on third party delivery partners through its fulfillment segment, Costco Logistics. In FY24, appliances and furniture, as well as big and bulky items, led the way in its ecommerce growth, and Logistics delivered over 4.5 million items in FY24, up 29% year-over-year. Further, it expects big and bulky items to be a key part of its progress with ecommerce in FY25[7].

This shift undermines traditional general merchants, which lack comparable in-house logistics capabilities and rely heavily on third-party delivery networks, which results in slower fulfillment, higher costs, and weaker control over the customer experience.

LEGACY REAL ESTATE

Legacy retailers have struggled to adapt to the industry-wide trend of downsizing physical footprints—a shift that has resonated well with consumers. Retailers like Burlington have embraced smaller formats, improving navigability and SKU relevance. In contrast, legacy players often maintain oversized stores with inconsistent SKU assortments and complex layouts, diluting the customer experience. Additionally, higher gross leasable area translates to elevated occupancy costs, further straining the general merchandise model.

General merchant stores located in malls and shopping centers often lack the infrastructure needed for rapid fulfillment, curbside pickup, and efficient delivery integration. This makes it difficult to adapt their physical footprint for omni-channel operations.

Legacy real-estate commitments are a structural challenge for general merchants, as smaller, more adaptable boxes with omni-channel capabilities continue to grow in demand. Analysts project that up to ~45,000 retail stores could close in the U.S. over the next five years due to ecommerce and changing formats[8], with an increasing need for retailers to adapt their physical presence to meet consumers' omni-channel preferences. UBS estimates that general merchants' online penetration will rise from 20% to 25% in 2029, with 30% of online sales being fulfilled in stores[4].

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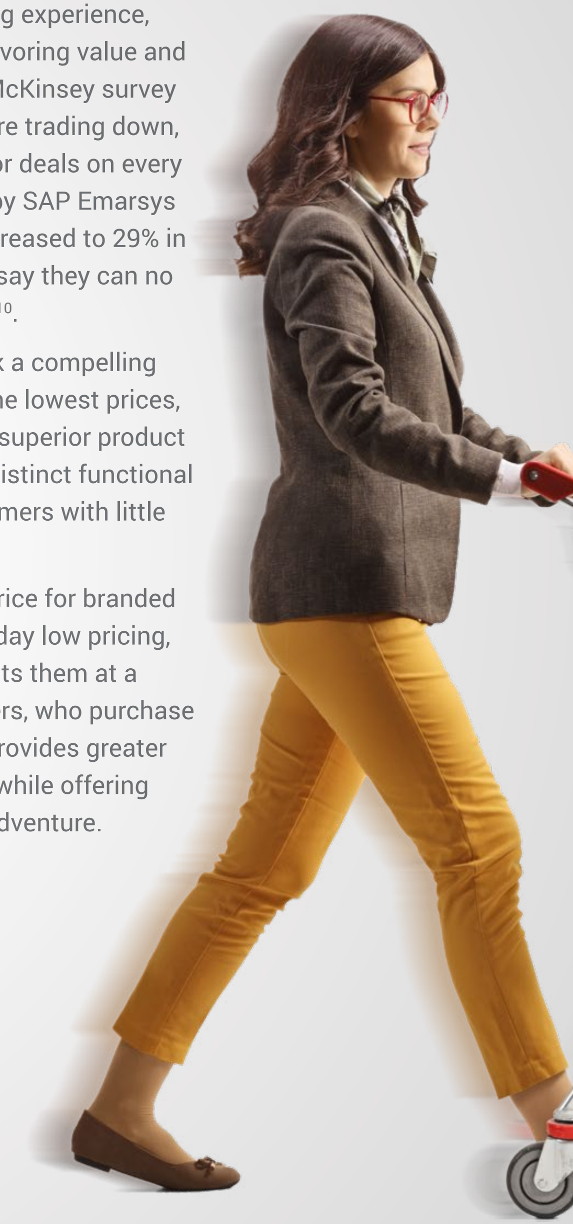
CONSUMER BEHAVIOR SHIFTS

While consumers are actively favoring omni-channel capabilities to enhance the shopping experience, studies show that shoppers are also favoring value and discovery over brand loyalty. A 2025 McKinsey survey found that nearly 80% of consumers are trading down, with more than half saying they look for deals on every purchase[9], while a survey conducted by SAP Emarsys showed that true brand loyalty has decreased to 29% in 2025, down 5% from 2024, while 24% say they can no longer afford to be loyal[10].

Many legacy general merchants lack a compelling value proposition. They offer neither the lowest prices, where off-price retailers dominate, nor superior product quality. As a result, they fail to serve a distinct functional purpose in the market, leaving consumers with little incentive to engage.

General merchants typically pay full price for branded goods and are forced to rely on everyday low pricing, further narrowing margins. This puts them at a disadvantage relative to off-price retailers, who purchase excess or discounted goods, which provides greater flexibility to absorb cost pressures while offering consumers a bargain-hunting adventure.



Competitive Pressures & Channel Disruption

General merchants continue to face competition and channel disruption. Off-price retailers, such as TJX, Ross, and Burlington, now capture 59.5% of total sales among the off-price vs. department store peer group, and a staggering 76.6% of the profit pool. Their profit share has expanded ~1,000 basis points over the past five years and 190 basis points year-over-year[11]. Global off-price sales are projected to grow from ~$350 billion in 2024 to nearly $560 billion by 2030, representing a CAGR of over 8%[12].

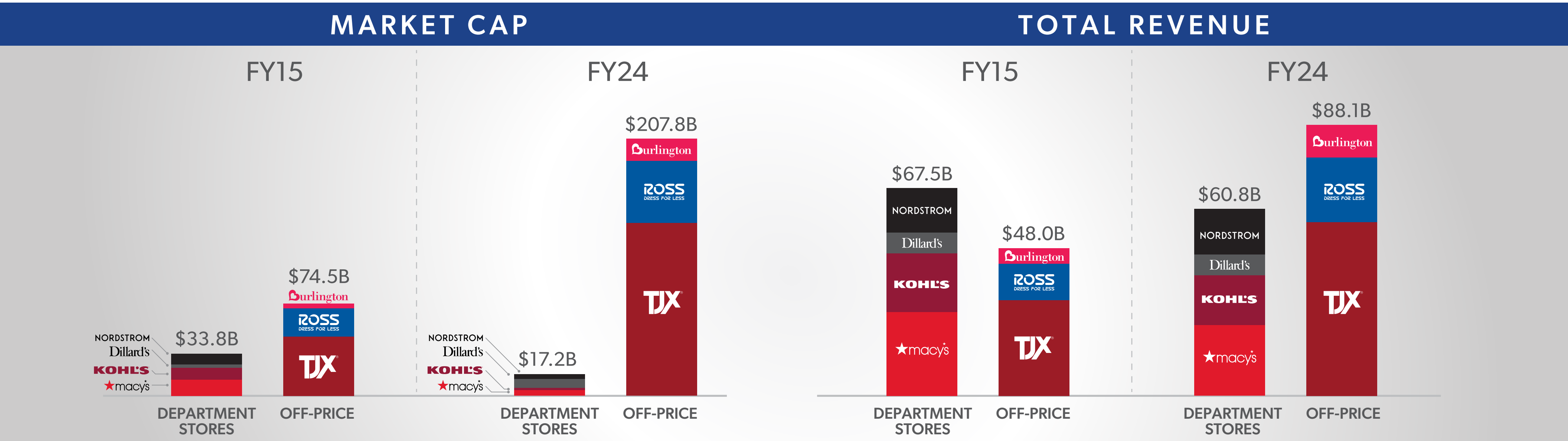
Inventory flows also favor off-price: off-price inventory rose by 9% year-over-year in late 2024, compared to just 5% growth for department stores[11].

By contrast, general merchants and department stores have experienced consistent same-store sales declines, margin erosion, and store closures. In 1990, department stores accounted for 14.5% of U.S. retail sales, but fell below 2% in 2024[13].

More recently, department stores' sales have declined 37% vs. pre-recession levels, largely attributable to ongoing share loss against off-price, online pure-play retailers, and direct-to-consumer ("DTC") channels[4].

As a result, general merchants and department stores have continued to close stores, causing significant declines in both revenue and market capitalization.

- In February 2024, Macy's announced plans to shutter 150 stores over the next several years[14].
- Kohl's recently announced plans to shutter nearly 30 stores, representing ~2% of their store footprint[15].
- JC Penney announced more store closures in February 2025, in addition to the previously announced 200 stores when the company filed bankruptcy five years ago[16].



Source: S&P Capital IQ; FY15 represents the year ending 1/30/2016, while FY24 represents the year ending 2/1/2025

Real Estate Implications

The general merchant sector is also facing growing obsolescence risk as non-fungible and oversized boxes become increasingly difficult to re-tenant. It is challenging to find replacement tenants to take on excess space and large footprints, and landlords often struggle to recapture rent without significant capital investment to demise the building to accommodate smaller users.

Additionally, tenant quality continues to erode as general merchants shrink their footprints amid declining sales, profits, and overall financial health. Given credit deterioration and obsolescent real estate footprints, valuation pressure has intensified across the sector as investors weigh cash flow viability and re-tenanting potential.

Conclusion

The demise of general merchants is structural, and many legacy operators are in a downward spiral as their declining sales and financial health limits their ability to invest and compete in today's omni-channel world. Their broadline model is mismatched with today's consumer preferences, and their legacy real estate puts them at a disadvantage to other retailers that can more effectively leverage their store footprint to fulfill the demands of today's consumers. Meanwhile, off-price and other specialized retailers have emerged as the dominant value-driven formats, capturing both outsized sales and profit share while benefiting from consumer shifts toward value and treasure-hunt experiences.

Not only are off-price retailers, warehouse clubs and general merchants with a strong grocery offering better positioned to take share in today's environment, but their real estate footprints are more fungible and better located, driving more favorable long-term outcomes for real estate investors.

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About Us

Creating Opportunity by Rethinking Retail

In 1971, Richard Agree, our Executive Chairman of the Board of Directors, founded Agree Development Company, the predecessor to Agree Realty Corporation. Over its 23-year history, Agree developed over 40 community shopping centers primarily throughout the Midwestern and Southeastern United States.

With an Initial Public Offering of 2.5 million shares in 1994, Agree Realty Corporation commenced operations as a publicly traded Real Estate Investment Trust (REIT). Agree Realty is listed on the New York Stock Exchange under the ticker symbol "ADC". Today, Agree Realty is a $12+ billion industry leader in the acquisition and development of properties net leased to the foremost retailers in the United States. As of September 30, 2025, the Company owned and operated a portfolio of 2,603 properties, located in all 50 states and containing approximately 53.7 million square feet of gross leasable area.

Disciplined and Focused Investment Strategy

The Agree Team's expertise and strategic execution seeks to maximize value for all stakeholders. Our innovative development and acquisition strategies, adaptive real estate technology, and extensive capabilities are relied upon by our industry-leading partners throughout the United States. Building upon the foundation of excellence established throughout the past half century, Agree Realty continues to be a thought leader, rethinking retail in an omni-channel world.

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