RESEARCH BRIEF

Marcus & Millichap

RETAIL SALES

JUNE 2022

Restaurants and Grocers Lead Subdued Month in Core Retail Spending

Retail sector approaches a junction. Improvements in grocery and dining-related spending were brightspots in May, when core retail sales advanced marginally against a backdrop of high inflation. The recent gains recorded across the two retail segments occurred alongside declines in home-based purchasing categories, including furniture, electronics and online spending. This activity points to a broader shift in consumer behavior away from the consumption of home goods and toward necessities and some social experiences. This adjustment has the potential to benefit owners of net-leased restaurants and grocery-anchored shopping centers.

Dining-related spending reaches record mark. Restaurant and bar sales in May accounted for their largest share of monthly core retail sales since the onset of the health crisis at 17.7 percent. Additional spending was driven by a roughly 9 percent increase year-over-year in foot traffic at eateries across the nation. West Coast and Northeast states registered the largest improvements in patronage, suggesting pent-up demand to socialize exists in these regions, following some of the most prolonged health restrictions in the nation. As summer commences, eateries and bars in travel destinations are poised to note further gains in foot traffic. The resumption of more business travel and conventions should also catalyze patronage in metro business districts.

Supermarkets reinventing themselves. Grocers recorded the largest monthly increase in spending across all brick and mortar categories in May. The positive performance, however, occurred alongside rapid price inflation, with the index tracking grocery and supermarket food prices up by double digits over the past year. Elevated pricing could weigh on per-person consumption moving forward. This possibility is motivating grocers to break into new markets and grow their customer base. A focus on smaller store formats in more central locations is emerging, while at the same time, value brands like Aldi and Lidl are expanding as price escalation places an added emphasis on lower-cost options.

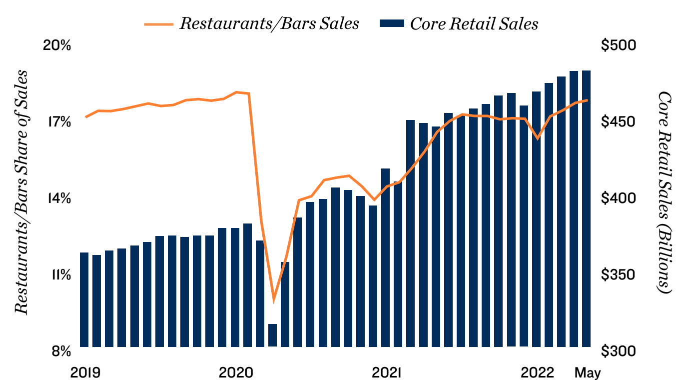
Rates, Retail Demand Alter Buyers' Plans

Vacancy nears pre-pandemic recording. Single- and multi-tenant property performance is advancing as foot traffic at physical retailers improves. Vacancy in both sectors nearly matched year-end 2019 rates after tenants absorbed a combined 91 million square feet during the 12-month period ended this March. Retail construction is expected to remain restrained over the near term, suggesting further vacancy compression is plausible if more vendors resume expansion plans and backfill available floor plans.

Buyers gravitate to safety. The Federal Reserve's 75-basis-point hike on June 15, and expectations for future hikes, may influence more investors to seek out high-quality assets as a hedge against potential disruptions in the marketplace. Well-located, necessity-centric retail properties that exhibited resilience during the health crisis should appeal to a broader buyer pool. Specifically, single-tenant net-leased assets should attract more capital, as these buildings require less management than other property types and provide investors with long-term cash flow.

7.9% *Increase in Core Retail Sales Year-over-Year*	**17.5%** *Gain in Restaurants/Bars Sales Year-over-Year*

Consumers' Dining Habits Nearing Pre-Pandemic Level



Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; Placer.ai; U.S. Census Bureau; M&M Investor Survey