

Retail Sales Historically Elevated, Clouds on the Horizon Prompt Spending Shift

Sales indicative of transitional period. Consumers continue to spend more than they did before the health crisis, with core retail sales in June up nearly 27 percent relative to pre-pandemic. Potential oncoming headwinds are starting to emerge, however, which is shifting shopping preferences. Last month, inflation surged 9.1 percent year-over-year as food prices rose 10.4 percent annually. This escalation is weighing on consumer confidence, which fell to its lowest level since February 2021, and shifting spending from entertainment options to necessities. This includes food, both at dining establishments and grocers, which has implications for tenant demand moving forward.

Dining habits return to pre-pandemic patterns. Restaurant and bar spending rose 1.0 percent in June, with purchases at these establishments accounting for more than \$86 billion in monthly sales. The continual increase in patronage that began at the onset of this year is requiring businesses to bolster staffs, which has pushed the number of accommodations and food services positions to within 3 percent of the March 2020 recording. The progressive rise in spending at restaurants and bars also has the potential to heighten near-term, single-tenant leasing velocity. After climbing above 5 percent in 2020, restaurant vacancy fell to a three-year low in June, based on preliminary data.

Supermarkets enlarge their reach. Grocery spending grew by 8.3 percent year-over-year in June, after rising 2.2 percent during the prior 12-month interval. This improvement, amid inflated food prices, is motivating larger supermarkets to expand. As of mid-July, 3.2 million square feet of grocer space was underway throughout the U.S., highlighted by Aldi's nationwide expansion with 150 new stores planned this year, as well as Publix's South-focused growth. Sector performance is also attracting additional investment. Across the U.S., transactions involving supermarkets or grocery-anchored shopping centers elevated by more than 50 percent over the past year ended in June.

Additional Trends

E-commerce a continued driver. Online retail sales rose 2.2 percent in June, up a remarkable 57 percent compared to the pre-pandemic level. The higher portion of overall consumer spending accounted for online is boosting demand for available industrial space. A record 500 million square feet was absorbed over the 12-month period ended in March and preliminary data shows space demand to be holding at a historically elevated level in the second quarter. Asking rents are climbing by double-digit percentages as a result.

Positives in place. A number of factors may aid near-term consumer spending power. The U.S. household saving rate has hovered in the 5 percent range throughout the year, and the \$5.7 trillion in savings and money market funds in excess of pre-covid levels is starting to be drawn down. Furthermore, unemployment has held at 3.6 percent for four months, with more than 1.5 million jobs added during that span. For investors, these drivers may fuel retail growth potential that could offset the rising cost of capital.

6.6% Increase in Core Retail Sales Year-over-Year

9.6% Gain in Nonstore Spending Year-over-Year

Online Purchases a Steady, Elevated Share of Core Sales

