

Brick-and-Mortar Sales Overshadow Drop in Core Retail Spending

Consumer durability has sector on solid footing. Store-based retail sales in April – which exclude purchases made online and at restaurants and bars – ranked as the second-highest total on record. While inflation and consumers’ prioritization of groceries played a large role, the onset of spring also had an impact. Motivated by warmer weather and upcoming travel plans, households increased their spending on clothing and building and gardening materials, with the two retail categories noting monthly gains of 1.6 and 0.5 percent, respectively. Overall retail sales rose 3.0 percent in April from the year before. Should these spending trends continue, paired with limited retail construction, demand for available space will remain strong.

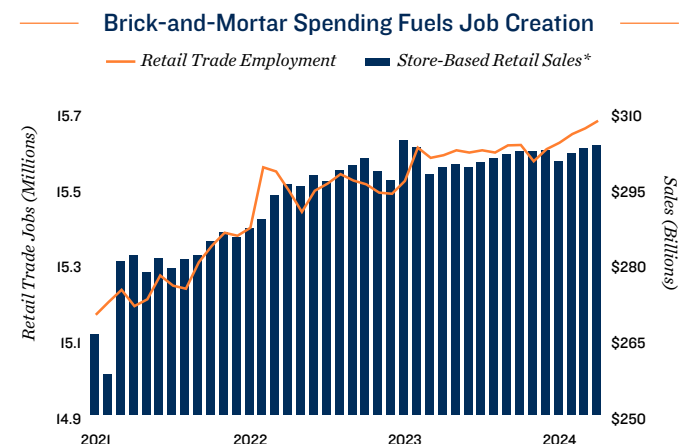
Groceries remain a focal point for consumers. Spending at supermarkets reached a record level in April, eclipsing the prior benchmark set at the onset of the pandemic. Moving forward, continued spending gains are likely if grocery prices recede slightly, as they did by 0.2 percent over the past three months. Encouraging sales tallies and stable grocer foot traffic have many supermarket chains plotting growth. At the same time, the Federal Trade Commission has sued to block the proposed Kroger-Albertsons merger, with a preliminary hearing set for late August. With grocery-related vacancy holding below 3 percent since late 2017 and Kroger-Albertson’s potential divestiture of 500-plus stores in question, competition for available space should be palpable.

Households continue to frequently eat out. While not factored into the store-based tally, spending at restaurants and bars also set a new benchmark in April. Encouraging patronage at these establishments is reflected in the number of accommodations and food service positions, which reached a more than four-year high last month. With most Americans planning to travel as much or more than last summer, despite slackening consumer confidence, restaurants and bars along primary travel routes and in top vacation destinations are likely to benefit in the coming months.

Candidates in place to backfill well-publicized moveouts.

The round of store closures expected to take place this year now includes Red Lobster, which reportedly shuttered 90 to 120 locations in mid-May. The restaurant chain joins the likes of Rue21, 99 Cents Only, Express and Sam Ash, who all announced across-the-board closures in recent months. However, amid encouraging store-based spending, these near-term moveouts will create opportunities for other retailers during a period of limited vacancy and historically minimal retail construction.

Spending fuels investor activity. Grocery and restaurant sales are poised to enhance the attractiveness of single-tenant net-lease investment among buyers seeking less management-intensive assets. For these investors, many metros and store types will prove appealing. Among the 50 major U.S. retail markets, 34 entered April with a single-tenant vacancy rate at least 100 basis points below their long-term average. Meanwhile, all but one net-leased subsector noted little or no vacancy change over the past year.



* Store-based retail sales exclude purchases made online and at restaurants and bars
 Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Tripadvisor; U.S. Census Bureau