

## Increasingly Sophisticated Retailers Deploy Range of Growth Strategies

**Retail sales showing consistency as year progresses.** Softened consumer confidence in March had little impact on spending as core retail sales advanced 3.6 percent year over year. A second consecutive month of moderate yet steady growth can be traced to the healthy job market, rising income levels and increasing spending power. Though overall consumption grew at a stable pace, sales growth was concentrated in a few areas, including e-commerce.

**Reinvestment takes priority as companies aim to improve shopping experience.** As a historically cold winter subsides, shopping at home-improvement and lawn and garden stores is picking up. Over the past year, spending at these retailers rose 6.0 percent as warming weather kicked off projects such as residential housing starts and remodels. Companies like Home Depot and Lowe's are making shopping at their stores more convenient by strengthening their omnichannel capabilities. In-store pickup has been widely popularized by home-improvement vendors, leading many other retail segments to adopt the concept. Like many retailers, home-improvement companies are focusing heavily on reinvestment into current operations rather than expansion.

**Drugstores multiply offerings to gain wider audience.** Spending at health and personal care retailers grabbed headlines in March, with sales rising 5.2 percent during the past year, well outpacing the 10-year average. Investor interest in these assets remains strong, particularly as they evolve into one-stop shops for health-related products and services. Leading the way are CVS and Walgreens, who are exploring new layouts and services to help drive foot traffic. These retailers have added primary care clinics and dental services and are beginning to offer more traditional grocery items at some locations to grow front-store sales. Cap rates for drugstores remain relatively tight, dipping below 5.0 percent for high-credit tenants in heavily trafficked areas.

## Developing Trends

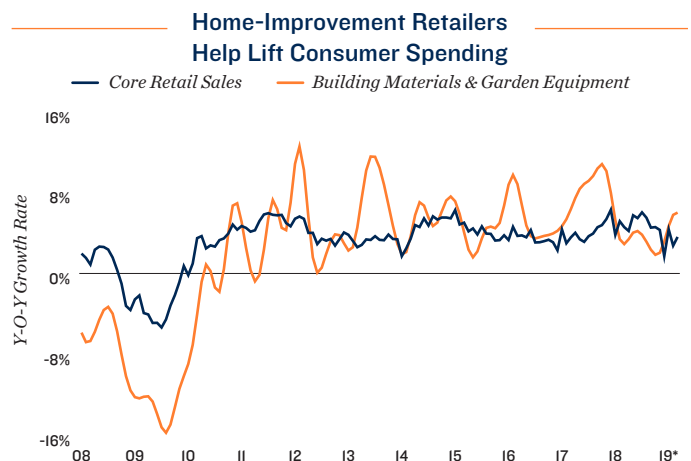
**Employers stay on recruiting trail.** Initial claims for unemployment benefits registered 192,000 in March, beating expectations and marking a near 50-year low. With job openings outnumbering job seekers roughly 10 percent, those looking for work are finding plenty of options.

**Lowe's reevaluates business model as sector evolves.** Lowe's has trimmed its brick-and-mortar portfolio in recent months, closing 51 underperforming locations in the U.S. and Canada as well as all 99 of its Orchard Supply stores. Increasingly sophisticated customer tracking has helped some retailers optimize their locations, boosting local revenue and profitability metrics.

**Pharmacies taking on new role.** As drugstores continue to bolster in-store healthcare, more customers are preferring these retailers over their family physicians and dentists. Pharmacies hold a key advantage in that they are typically open evenings and weekends, expanding services beyond typical healthcare business hours.

3.6% Core Retail Sales Growth Y-O-Y

6.0% Building Materials & Garden Equipment Sales Growth Y-O-Y



\* Through March  
Sources: Marcus & Millichap Research Services; Marcus & Millichap MNET; Bureau of Labor Statistics; The Conference Board; CoStar Group, Inc.; Creditintel; Retail Dive; U.S. Census Bureau