

Shifting Behavior Lifts Sales Across Most Brick and Mortar Operations

Tangible locations account for larger slice of total retail sales. Store-based retail sales, which excludes online purchases and spending at restaurants and bars, represented nearly two-thirds of all retail sales in March, the largest proportion this year. The 2.1 percent rise in store-based spending recorded last month suggests consumer mobility is improving, and physical stores are noting a rise in foot traffic as health conditions improve and mandates are lifted. Receding online sales during the last two months further support this notion, with a broader shift in shopping behavior occurring despite widespread inflation and rapidly rising fuel prices.

Inflation weighs partly on consumption. Spending gains were distributed widely across store-based segments in March, another indication that more consumers are visiting physical stores with increased frequency. General merchandise, electronics and apparel stores notched the largest improvements in spending last month. These gains, however, occurred against an inflation backdrop of 1.2 percent in March alone, and 8.5 percent over the past 12 months, a 40-year high. Despite this, physical shopping still advanced. When adjusting for inflation, spending at tangible locations inched up about 0.8 percent in March. Moving forward, consumers may curtail some nonessential purchases if the cost of necessities, gas and housing continue to rise. Nevertheless, even if sales growth tapers off, overall store-based spending is still up more than 10 percent in real terms from pre-pandemic recordings, aiding storefronts.

Gas hike could affect travel spots. Gas station sales accounted for 10 percent of all retail sales last month, the largest ratio since 2014. Consumers making more trips to stores and rising commuter traffic each played a role; however, surging prices were the primary driver of spending. A prolonged stretch of elevated fuel costs may adversely impact vendors in tourism destinations. A recent survey found 80 percent of Americans intend to travel in their personal vehicle this summer; however, six in 10 believe current travel prices are too high, potentially impacting their plans.

Fundamentals Raise Investor Sentiment

Retail absorption returns to pre-pandemic level. Retail property performance continues to improve as consumer behavior adjusts. Data from the first quarter shows 91 million square feet absorbed nationally during the yearlong period ended in March, the strongest 12-month span in nearly five years. Fueled by population trends and widespread remote work, vendor demand is particularly strong in the suburbs. Estimates for the first quarter show suburban vacancy slipping below the CBD for the first time on record, as people are going out for errands and meals closer to where they live, rather than travel to downtowns.

Deal flow reflects retail's recovery. Improving retail fundamentals and shifting consumer behavior that favors brick and mortar stores are motivating owners to expand portfolios. A recent survey of investors with retail holdings found more than half plan to increase their investment in the sector this year. For these buyers, Sun Belt metros noting strong in-migration and West Coast markets primed for tourism revivals could represent target locales.

4.6% Annual Gain in Store-Based Retail Sales

37.0% Annual Increase in Gas Station Sales

Store-Based Retail Sales Ascend to Record Mark

