RESEARCH BRIEF

Marcus & Millichap

RETAIL SALES

APRIL 2023

Positive Spending at Necessity Retailers Contrasts Overall Sales Momentum

Consumers prioritize food and personal care items. For a second consecutive month, total retail sales dropped; however, a pair of necessity-based categories continued to record gains. In March, health and personal care shops registered a third consecutive month of growth, with sales rising 0.3 percent. Meanwhile, grocery store purchasing increased slightly amid a decline in food at home inflation. The divergence between these two segments' performance and overall retail spending indicates consumers are placing a larger importance on essential goods and passing on big ticket items. Consumers that are still looking to make discretionary purchases may be spending online where discounts exist. Online pricing fell 1.7 percent year-over-year in March, with 10 of 18 major product categories noting declines.

Recent spending trends strengthen single-tenant outlook. The performance of the grocery store and health and personal care categories during the first quarter has positive implications for net-leased property fundamentals. Entering April, vacancy in both the supermarket and drug store subsectors was in the low-2 percent range, with a net of more than 5 million square feet of grocery space absorbed over the past 12 months. This limited volume of available space, consumers' prioritization of necessity goods and an expected slowdown in construction are likely to preserve tight conditions across both segments over the near-term.

Events aid dining establishments. After declining last month, restaurant and bar sales improved slightly in March, with spending up 13 percent annually — the largest increase across retail categories. Dining establishments likely received a boost in St. Patrick's Day and NCAA Men's Basketball Tournament-related patronage when compared to the prior year, when lingering concerns surrounding the Omicron variant existed. Restaurants proximate to Major League Baseball stadiums may notch similar increases in April. The first month of the season typically draws sizable crowds, with many fans visiting adjacent establishments.

Fed Policy and Retail Investment Insights

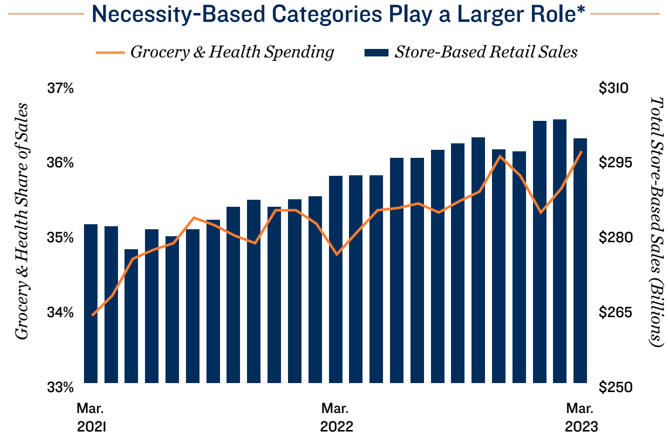
Additional rate hikes less likely. At its March 22 meeting, the Federal Open Market Committee raised the federal funds rate for the ninth time in 12 months. The 25-basis-point hike lifted the lending rate's lower bound to 4.75 percent. The FOMC has walked back language previously indicating they would continue with ongoing rate hikes. It is unclear where the Fed will go; however, as of mid-April, the consensus on Wall Street is an 80 percent likelihood of a 25-basis-point hike in May.

Retail investment landscape slated for a turnaround. Expectations for a more stable federal funds rate will aid commercial real estate lending, allowing capital providers to readily set terms and determine property valuations. This should translate to buyer-seller pricing expectations realigning, supporting a pickup in transaction activity in the second half of this year. Historically low vacancy should attract active buyers to retail listings, with a forecast pullback in project proposals aiding performance metrics at existing shopping centers and single-tenant assets.

5.9% *Year-Over-Year Increase in Grocery & Health Spending*

1.8% *Rise in Store-Based Retail Sales Year-Over-Year*

Necessity-Based Categories Play a Larger Role*



** Store-based retail sales exclude auto, gasoline, eating and drinking establishments, and non-store retail sales*

Sources: Marcus & Millichap Research Services; U.S. Census Bureau; U.S. Bureau of Labor Statistics; CoStar Group, Inc.; Adobe