

Discounts, Dining and Groceries Help Boost Sales to All-Time High

Sector registers rare achievement. For the third consecutive month, consumers set a record for core retail sales, exceeding pundits' expectations. Consumer resiliency translated to a 3.4 percent year-over-year rise in spending during July, with sales up in real terms even after factoring in core CPI inflation. Gains were widespread across retail segments, with nine of 10 core categories notching annual spending increases, ranging from 0.4 to 6.7 percent. This performance is noteworthy for property owners and retailers alike, as the last time this occurred was August 2022. Still, potential headwinds have emerged that could impact households' spending power moving forward. Hiring nationally has slowed and total household debt was at an all-time high of nearly \$17.8 trillion at the onset of July. Furthermore, in June, the U.S. personal saving rate fell to its lowest reading since late 2022.

Consumers gravitate to discounts. Online spending rose 6.7 percent annually in July, the largest gain among retail categories. Amazon's Prime Day played a role. Sales across the two-day event reached a record \$14.2 billion, surpassing last year's tally by 11 percent. This rise indicates more consumers were eager to take advantage of discounts on discretionary items or start their back-to-school shopping. The latter trend is having an impact beyond online retail. Walmart, Target and Shein all announced deals on school items prior to Prime Day in an effort to capture market share earlier in the school shopping season.

Restaurants benefit from holiday road trips. Record-setting travel was noted over the Fourth of July weekend, with nearly 20 percent of the population driving at least 50 miles from their homes. These trips required more households to eat out, a dynamic that aided dining establishments. As such, spending at restaurants and bars rose 4.1 percent year over year in July. Patronage at dining places, however, has been ascending for some time. Foot traffic has improved on a year-over-year basis in nearly every month since June 2023, a dynamic that is likely to fuel demand for the scant amount of vacant restaurant space on the market.

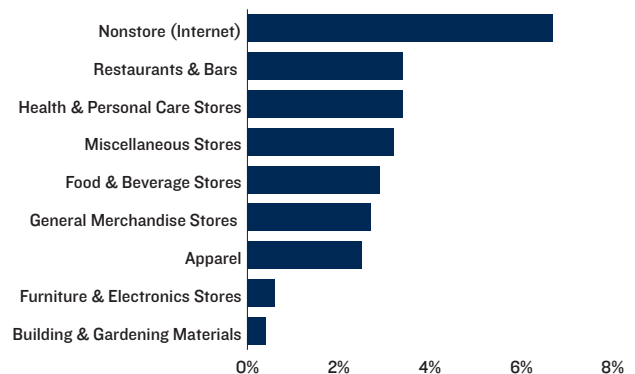
Grocery-anchored shopping center owners are well positioned. Mirroring core retail sales volume, spending across grocery stores reached a record mark in July. With food-at-home inflation tempering, up 1.1 percent annually, and sales up 2.9 percent year over year, sector spending is up in real terms. This performance and the lack of grocery store construction is poised to extend a stretch of extremely low supermarket vacancy. As of August, just 2.1 percent of grocery store space was without a tenant, a more than 20-year low, with the active pipeline equal to just 0.4 percent of existing stock.

Closures create expansion opportunities. National retail vacancy has hovered in the 4.5 percent range for seven straight quarters, with tenants absorbing a net of 32.5 million square feet over the past year ending in June. This and consumers' resiliency suggest candidates are in place to backfill a near-term wave of store closures. Over the past two months, Big Lots, Conn's and Lumber Liquidators have joined the list of retailers slated to shutter stores, with this trio anticipated to close up to a combined 575 locations.

3.4% Year-Over-Year Rise in Core Retail Sales*

3.2% Year-Over-Year Increase in Core CPI

— Spending Gains Apparent Across Core Categories —



Sales Change Year Over Year (July)

* Core retail sales exclude auto and gasoline purchases

Sources: Marcus & Millichap Research Services; AAA; Adobe Analytics; Bureau of Economic Analysis; CoStar Group, Inc.; Federal Reserve; Placer.ai; U.S. Census Bureau



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