

Growing Distribution Webs Boost Retailers' Competitive Advantages

Consumption underpinned by elevated consumer optimism. Retail sales remained steady in May, increasing 3.2 percent over the past year. Though this is slightly lower than the previous two months, spending appears to have further stabilized following heightened levels of consumption for much of 2018. Sustained economic optimism is supporting this trend as consumer confidence stays near historical highs.

Industrial properties reap rewards of transforming retail sector. Sound consumption was evident across several retail categories, headlined by bars and restaurants, which remain beneficiaries of increased discretionary spending. General merchandise vendors also performed well, outpacing historical averages as companies like Target and Walmart boost their omnichannel capabilities to improve overall sales. Both companies have ramped up shipping efforts to match Amazon's rapid delivery services. Walmart also established pickup towers at many of its locations as well as introduced an in-home delivery service. The strengthening omnichannel concept across retail continues to benefit the industrial sector as retailers broaden their distribution networks. Asset appreciation among industrial properties has soared over the past five years, driving the nationwide average price per square foot up nearly 50 percent, substantially outmatching other property types.

Grocery stores evolve with consumers. The grocery sector maintained its steady performance as sales rose 2.1 percent on an annual basis. Changing store layouts and more experiential features have improved these assets' ability to drive foot traffic, making them highly desired by investors. Many grocers are on track to significantly expand their footprints in the coming months, highlighted by an infusion of small-format stores. These layouts better align with many of today's consumer shopping habits as customers shift to more frequent, shorter trips compared with large weekly hauls.

Developing Trends

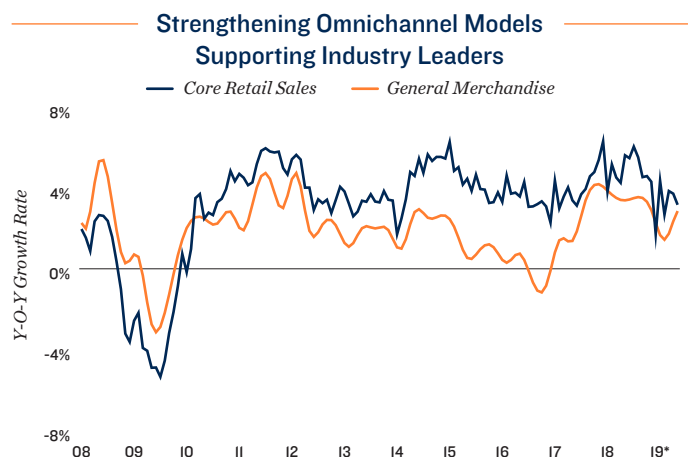
Economy's underlying strength overshadows potential challenges. Consumer confidence continued to rise in May, jumping 4 percent from April's reading. While some economic headwinds and pending geopolitical issues persist, the economy's foundation remains solid, fostering a positive outlook from consumers.

Walmart building out logistics nexus. Walmart recently added a supplementary component to its delivery service, which will allow customers to bypass per order fees through an annual subscription. This gives Walmart a bigger edge on many brick-and-mortar retailers as well as a more competitive stance against the robust distribution networks of online vendors.

Industrial sector sustains momentum. While yields for other property types have flattened, industrial returns remain on a downward trend. At the end of the first quarter, the national average cap rate tightened 10 basis points to 6.9 percent, with yields falling evenly across all market sizes.

3.2% Core Retail Sales Growth Y-O-Y

2.9% General Merchandise Growth Y-O-Y



* Through May

Sources: Marcus & Millichap Research Services; The Conference Board; National Real Estate Investor; Real Capital Analytics; U.S. Census Bureau



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