Marcus & Millichap

Research Brief

RETAIL SALES

August 2017

Developing Trends

- **Proliferation of technology becoming increasingly important in food spending.** The changing landscape of the food and drink industry has becoming increasingly driven by web-based review platforms such as Yelp and on-demand delivery services like Grubhub and Uber Eats. Boasting more than 100 million users, Yelp has transformed the restaurant business, shifting consumer dollars from outdated chain-related concepts to original and local eateries. Additionally, the ease of delivery from restaurants via Grubhub and Uber Eats will transform the landscape dramatically, currently making up less than 5 percent of the $210 billion in national restaurant spending.
- **E-commerce spending reinforcing emphasis on last-mile industrial assets.** Nonstore retail sales, an aggregate of e-commerce spending, soared 11.5 percent over the past year. In a broad push towards quicker delivery times, industrial assets within metros have been in high demand. As a result, vacancy fell to 5.4 percent in the second quarter, the lowest rate in more than

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Booming Apartment Demand Underpinning Steady Growth in Retail Sales

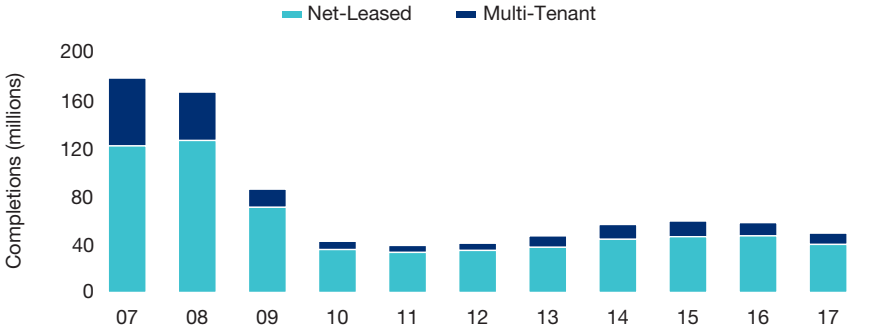
Household formation boosting retail sales. Core retail sales climbed 4 percent in July, driven by robust performance in key household formation sectors. Building materials and garden supplies vaulted 8.3 percent higher over the past year, boosted by homeowner renovations amid a surging single-family housing market. Additionall, furniture and home furnishing sales advanced 5.6 percent during the last year, indicating household formation remains robust, particularly among the maturing millennial generation. As the overall homeownership rate remains near levels last seen in the 1980s, significant amounts of households have flocked to apartments, pushing the national vacancy to a 17 year low at 3.8 percent even as development reaches 370,000 units. Class C vacancy is even tighter, ending the second quarter at 3.3 percent.

Consumer focus on household-related spending slowing restaurant growth rates. While the formation of new households has had an overwhelmingly positive effect on furniture and building materials, the growth rate in restaurant spending has slowed in lockstep. Sliding from 9 percent in mid-2015 to 3.4 percent over the past year, operators have had to become increasingly tactical as the industry growth rate has slowed. As a result, good and bad concepts have emerged as technology and food delivery concepts have proliferated, coupled with rising labor costs as the national unemployment rate has fallen to 4.4 percent. This process is prompting a closer consideration of the dynamics underpinning the individual restaurant concepts and the underlying residual value of the real estate itself by investors in order to perform proper due diligence before deploying capital.

4.0% Core Retail Sales Y-O-Y*

2.5% Average Hourly Earnings Y-O-Y*

Net-Leased Focus Compressing Retail Vacancy



* Through July ** Forecast
Sources: Marcus & Millichap Research Services; U.S. Census Bureau; National Retail Federation