RESEARCH BRIEF
RETAIL SALES

IPA | INSTITUTIONAL PROPERTY ADVISORS

MAY 2023

Improvement in Core Spending Reinforces Positive Outlook for Retail

Consumption tailwinds back demand for available space. Labor market resiliency, wage growth and easing inflationary pressures aided consumers' spending power in April, supporting a 0.6 percent increase in core retail sales. Households concentrated their spending on essential goods and seasonal items during the month, generating sales growth across the health and personal care, building and gardening materials, and general merchandise categories. Consumers were also eager to spend more dining out, despite an increase in the price index for food away from home and a greater reliance on credit. Together, these spending trends have positive implications for retail space demand at a time when single-tenant vacancy is already historically limited, and multi-tenant vacancy is below pre-pandemic levels.

Health a priority for both shoppers and retailers. The health and personal care segment was the only retail sector to record positive sales growth in each of the first four months of 2023, with spending up 7.9 percent in April. This performance is maintaining demand for available drug store space, with sector vacancy in the low-2 percent range. The rise in spending is also influencing retailers to broaden their offerings to capture market share. Dollar General has recently expanded into health care by carrying more over-the-counter medications and other health products. Meanwhile, Target is extending its partnership with Ulta Beauty, and Walmart grows its freestanding health center format.

Demand for experiential destinations apparent. Sales at bars and restaurants were up 9.4 percent year-over-year in April. Fast food and casual dining places have played a leading role in the segment's recent growth amid an overall tightening in households' budgets; however, consumer demand for experiential retail with a drinking or dining component is a secondary driver. In response, companies like Topgolf and Puttshack are expanding their national footprint, with Dave & Buster's intent on broadening its offering by permitting in-house sports betting.

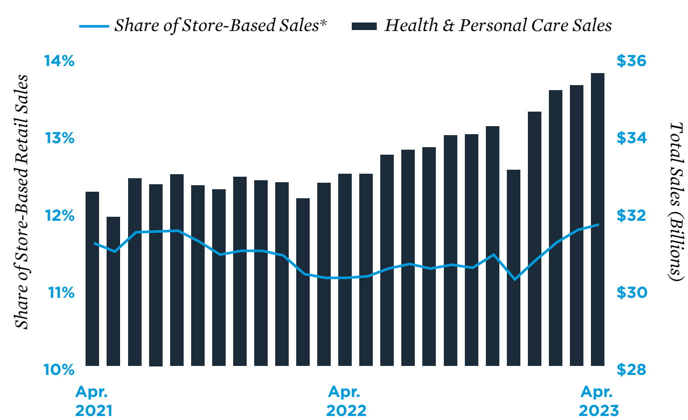
Fed Policy and Retail Financing Insights

Reactive stance adopted. At its May meeting, the Federal Open Market Committee raised the federal funds rate for the 10th time in 14 months. The 25-basis-point hike lifted the lending rate's lower bound to 5.00 percent. Looking ahead, the path is more open, with the FOMC announcing a meeting-by-meeting approach to further monetary policy tightening. Should inflationary pressures continue to ease and economic growth taper, the Fed may keep rates flat for the near future. This stability will aid lending, allowing capital providers to more readily set terms and determine property valuations.

Bank collapses impact primary retail lending source. Entering May, net-leased assets and well-located centers with high-credit anchor tenants were some of the more approachable property types for many lenders. The sector's tight vacancy, restrained pace of development and record asking rents should prolong this trend; however, some capital sources may face challenges. Local and regional banks, who have taken on a larger share of retail lending over the past year, may tighten their standards as they build reserves.

7.9%	**5.5%**
Annual Rise in Health & Personal Care Sales	*Increase in Core CPI Year-Over-Year*

Health-Related Spending Reaches Record Level



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

Sources: IPA Research Services; U.S. Census Bureau; U.S. Bureau of Labor Statistics; CoStar Group, Inc.; PNC