

Consumer Resilience, Favorable Supply-Demand Balance Aid Single-Tenant Outlook as Tariffs Take Hold

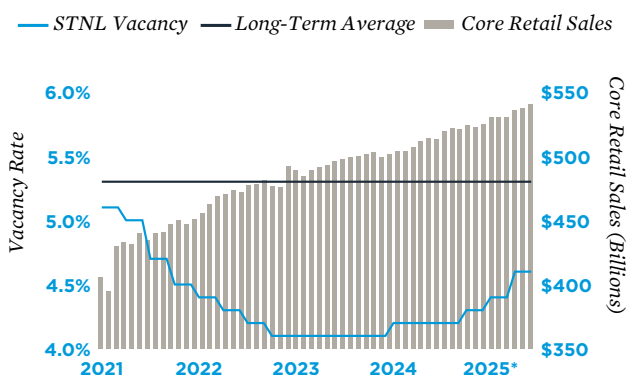
Sector vacancy on par with prior 10-year mean. After a multi-year stretch of positive net absorption, single-tenant retail space demand tapered in the first half of 2025. Store closures, tariff-related price pressures and a weakening labor market all had an adverse impact on leasing, resulting in the sector's vacant stock growing by 21 million square feet during the six-month interval. Still, the outlook for net-leased retail remains optimistic, as consumer spending continues to exceed expectations. Through the first eight months of 2025, core retail sales rose 4.9 percent when compared with the same span in 2024. More pronounced gains were posted across the health and personal care, restaurants and bars, and apparel categories, which has positive implications for single-tenant demand moving forward. Further bolstering the outlook for single-tenant property owners, the segment's average asking rent entered the second half at a record mark.

Full effect of tariffs yet to materialize. Many retailers pulled inventories forward at the beginning of this year, followed by a sizable drop in imports between April and June. With elevated tariffs now in place for at least four months, some retailers' pre-tariff inventories may begin to deplete during the second half of 2025. That may spur more retailers to pass the cost of import duties through to consumers in the coming months — a dynamic that, along with a weaker labor market, would test households' budgets and adversely impact sentiment. Fortunately, many single-tenant sectors entered July with sub-4 percent vacancy, positioning these segments to handle a period of potential volatility.

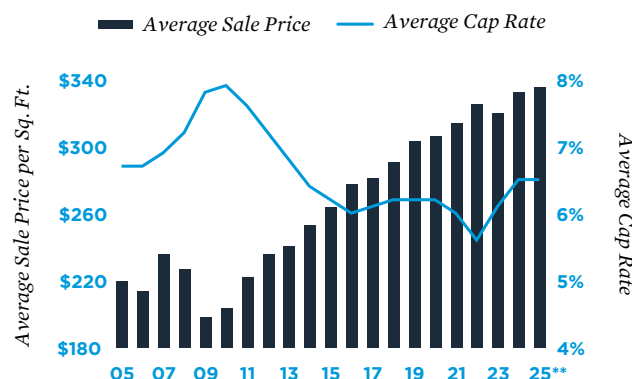
Food-centric sectors outperform. Single-tenant fundamentals are encouraging across many property types and metros despite several recent quarters of overall net relinquishment. Nationwide, tenants absorbed a combined 11.5 million square feet of restaurant, fast food, convenience store and supermarket space during the first half of 2025 — translating into modest vacancy movement across these sectors. Demand is widespread, with 40 of 50 major metros entering July with a single-tenant vacancy rate below their long-term mean. Near-term supply pressure will be moderate for most of these markets. As of September, the nation's active pipeline represented 0.4 percent of existing inventory. In areas where a pullback in deliveries materializes, tenant competition for existing spaces may improve, as periods of declining consumer sentiment tend to favor necessity-based retailers.

Net-leased assets favored among investors. The second quarter was the most active three-month period for single-tenant trading since late 2022. Considering the sector's historically favorable fundamentals and shrinking pipeline, net-leased listings will remain an attractive option for active investors seeking less management-intensive assets. Deal flow is likely to be well dispersed, as private investors often acquire properties outside their home states. The reduction to the overnight lending rate in September and the potential for additional cuts has benefits for these investors. Still, the window to capitalize on lower rates may be limited. Historically, the 10-Year Treasury yield does not always follow the same trajectory.

Tenant Demand Remains Historically Strong



STNL Price vs. Cap Rate



* Vacancy as 2Q 2025; Retail sales through August

** Trailing 12-month period ending in June

Sources: IPA Research Services; Bureau of Economic Analysis; CoStar Group, Inc.; Real Capital Analytics

Property Performance Encouraging Across Most of the Single-Tenant Sector



2.3%	+20 bps	+4.1M
Vacancy	Y-O-Y Change	12-Month Net Absorption

Grocery Stores

Vacancy has held below 3 percent since the second quarter of 2017

Category has registered 79 straight quarters of positive net absorption

Active pipeline as of September represented 0.8 percent of existing stock

Expanding Chains: Aldi, Publix, H-E-B, Trader Joe's, Sprouts Farmers Market, Schnuck Markets, Inc., Grocery Outlet, Lidl



1.3%	+10 bps	+2.1M
Vacancy	Y-O-Y Change	12-Month Net Absorption

Quick Service Restaurants

Vacancy has held below 2 percent since the second quarter of 2010

Category has noted positive net absorption in every quarter dating back to at least 2000

Average asking rent up 7.3 percent during the yearlong period ending in June

Expanding Chains: Chick-Fil-A, Dutch Bros, McDonald's, Panda Express, Raising Cane's, Whataburger, Chipotle



1.0%	0 bps	+1.9M
Vacancy	Y-O-Y Change	12-Month Net Absorption

Convenience Stores

Vacancy has held below 2 percent since the third quarter of 2015

Category has registered 79 straight quarters of positive net absorption

Average asking rent up 4.7 percent during the yearlong period ending in June

Expanding Chains: WaWa, Buc-ee's, Sheetz, RaceTrac (via Potbelly acquisition)



3.6%	-10 bps	+3.6M
Vacancy	Y-O-Y Change	12-Month Net Absorption

Restaurants

Vacancy has held below 4 percent since the fourth quarter of 2021

Segment vacancy entered the second half 10 basis points below the prior 10-year average

Active pipeline as of September equated to just 0.3 percent of existing inventory

Expanding Chains: Olive Garden, Cava, Qdoba, Sweetgreen, Texas Roadhouse



4.8%	+200 bps	-4.0M
Vacancy	Y-O-Y Change	12-Month Net Absorption

Drug Stores

Segment vacancy at its highest level since at least 2000

Preliminary third quarter data indicates vacancy has eclipsed the 6 percent threshold

Active pipeline is extremely scant

Note: Average asking rent adjusted nominally over the 12-month period ending in June despite the spike in vacancy



6.3%	+20 bps	-122K sq. ft.
Vacancy	Y-O-Y Change	12-Month Net Absorption

Department Stores

Vacancy was 30 basis points above the prior five-year mean at the onset of the second half

The volume of space added during the second quarter of 2025 was the lowest tally for a three-month period since at least 2016

Average asking rent up 6.7 percent over the 12-month period ending in June

Expanding Chains: TJ Maxx, Marshalls, HomeGoods, Ross

Wave of Store Closures Creates Opportunities for Other Retailers

Lease assumptions improve conditions for impacted property owners. An estimated 6,000 stores shuttered during the first half of 2025; however, a group of these leases were swiftly acquired by other retailers seeking to expand their market share while avoiding construction risk. Specifically, Ollie's Bargain Outlet, Tractor Supply and Ocean State Job Lot collectively acquired nearly 100 Big Lots leases over the first six months of 2025, with Burlington, Hobby Lobby and Boot Barn each assuming Joann's commitments. In May, a host of Rite Aid leases were acquired by various operators including Walgreens, Albertsons, Kroger, Giant Eagle and CVS Pharmacy. This recent backfilling is encouraging for single-tenant property owners that will be impacted by second half closures, as the credit quality of their tenant could improve over the near term. Amid a period of declining consumer sentiment, off-price chains, discount stores and supermarkets could represent prime candidates to assume in-place leases.

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Sources: IPA Research Services; Bureau of Economic Analysis; Coresight Research; CoStar Group, Inc.; Real Capital Analytics; U.S. Bureau of Labor Statistics; U.S. Census Bureau

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