

Additional Hurdles Ahead for the Nation's Least Vacant Commercial Real Estate Sector

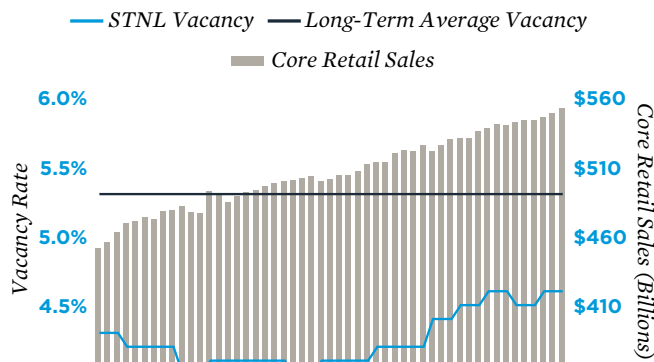
Net-leased segment remains well positioned. Following a wave of store closures, tariff-induced inflationary pressure, and historically high gas prices, single-tenant retail vacancy rests well below its long-term average. A sizable tenant base of expansion-minded necessity, off-price, and experiential retailers has somewhat insulated the sector from recent volatility; however, the segment is not without its challenges as the second half of 2026 approaches. Net relinquishment was recorded in the first quarter — the third such recording in the past 15 months — with a group of chains including Carter’s, Papa Johns, and Wendy’s slated to execute nationwide closures in the near future. Fortunately, another cohort of retailers is intent on expanding their footprints. The lack of ongoing construction projects for these companies suggests most will achieve their growth objectives by occupying existing properties, aiding backfilling efforts.

Retail sales face uncertain path. Consumer resiliency was on display in the first quarter, with core retail sales up 4.4 percent compared with the same period in 2025. Fuel prices, however, have since remained elevated, with tariff-driven inflation and weak employment growth persisting. Still, a moderation in retail sales growth may materialize as the past year of volatility has eroded the budgets of many lower- and middle-income households, despite many of these families receiving larger federal income tax refunds this year. Fortunately, many retailers that occupy single-tenant spaces focus on necessities, which households historically prioritize during periods of budget tightening.

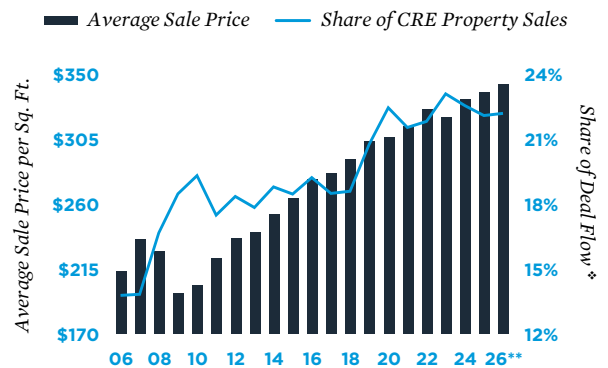
Construction activity historically scant. The single-tenant sector is grappling with its share of headwinds; however, supply pressure is not among them. During the first quarter, roughly 4.3 million square feet was delivered nationwide, the lowest total for a three-month period since at least 2007. As of May, another 9 million square feet was being built across primary single-tenant sectors, indicating completions should remain historically subdued over the near term. Regionally, supply additions will be particularly scant across most West Coast, Midwest, and Northeast markets during the second half, as nearly 45 percent of the pipeline is concentrated in Texas, Florida, and North Carolina. With a pullback in construction and the store closure-openings disparity potentially narrowing, supply-demand dynamics may stabilize despite broader economic challenges.

Single tenant assets gain in appeal. The recent period of uncertainty has boosted the attractiveness of real assets with reliable income streams. As such, single tenant trading rose 23 percent year-over-year during the 12 months ending in March, with the number of transactions the highest since late 2022. Similar gains were recorded across primary, secondary, and tertiary markets, reflecting well-dispersed private investor demand for net leased assets priced under \$5 million. Moving forward, record pricing could generate some sell-side activity. Listings with high-credit tenants and built-in rent escalators, as well as those being renovated by tenants with long-term leases in place, may be favored if inflationary risk remains.

Tenant Demand Remains Favorable



Investors Undeterred by Record STNL Pricing



* Vacancy as 1Q 2026; Retail sales through March

** Trailing 12-month period ending in March

*Reflects the single-tenant sector's share of deal flow among multifamily, retail, office, and industrial sales \$1 million plus

Vacancy Remains Tight Across Food-Centric Properties; Backfilling Efforts to Aid Challenged Sectors



| | | |
|---------|--------------|-------------------------|
| 2.6% | +30 bps | +5.0M |
| Vacancy | Y-O-Y Change | 12-Month Net Absorption |

Grocery Stores

Vacancy has hovered in the 2 percent range for nine straight years

The only single-tenant sector to note a year-over-year improvement in net absorption during the 12-month period ended in March

Active pipeline as of May represented 0.6 percent of existing stock

Expanding Chains: Publix, Trader Joe's, Sprouts Farmers Market, Harris Teeter, H-E-B, Meijer



| | | |
|---------|--------------|-------------------------|
| 1.5% | +30 bps | +1.7M |
| Vacancy | Y-O-Y Change | 12-Month Net Absorption |

Quick Service Restaurants

Vacancy is 20 basis points below the sector's long-term average

Led all single-tenant categories in asking rent growth — up roughly 6 percent — over the 12-month period ending in March

Active pipeline as of May equals 0.2 percent of existing stock

Expanding Chains: Chick-Fil-A, Dutch Bros, Raising Cane's, Chipotle, 7 Brew, Taco Bell



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

Convenience Stores

Vacancy has held below 2 percent for 10 straight years

Led all single-tenant categories in net absorption during the first quarter of 2026 — roughly 385,000 square feet

Convenience store projects — 915,000 square feet — account for 10 percent of the active single-tenant construction pipeline

Expanding Chains: Dollar General, Buc-ee's, Wawa, Circle K



| | | |
|---------|--------------|-------------------------|
| 3.5% | 0 bps | +2.2M |
| Vacancy | Y-O-Y Change | 12-Month Net Absorption |

Restaurants

Vacancy has held below 5 percent since at least 2000

Segment has registered more than 700 new lease executions in every quarter since late 2020

Restaurant projects account for 25 percent of the active single-tenant pipeline yet equals just 0.3 percent of segment inventory

Expanding Chains: Denny's, Olive Garden, First Watch



| | | |
|---------|--------------|-------------------------|
| 6.0% | +200 bps | -3.9M |
| Vacancy | Y-O-Y Change | 12-Month Net Absorption |

Drug Stores

Vacancy at its highest level since at least 2000

Positive absorption was noted in the first quarter of 2026, ending a six-quarter stretch of net relinquishment

Deliveries have been minimal of late, with the active pipeline scant

Note: Dollar Tree, Dollar General, Goodwill, and various grocers are among the tenants backfilling this space



| | | |
|---------|--------------|-------------------------|
| 6.4% | +30 bps | -1.3M |
| Vacancy | Y-O-Y Change | 12-Month Net Absorption |

Department Stores

Vacancy is 40 basis points above the prior five-year average

The number of leases executed during the 12-month span ending in March was on par with the total from the prior yearlong period

Expanding Chains: Ross, Five Below, TJ Maxx, Burlington, Target

Note: Nontraditional tenants, including Crunch Fitness and Planet Fitness, have also become primary backfillers of this space

Headline-Grabbing Closures Distract From Tenants' Broader Strategies

Many retailers are repositioning, not retreating. Influenced by shifting consumer habits and household migration trends, a group of major chains will close a host of underperforming stores during the second half of 2026. The near-term impact these shutterings have on single-tenant property fundamentals, however, may be somewhat offset by the actions of these same retailers, a group that includes Dollar Tree, 7-Eleven, Starbucks, Grocery Outlet, and CVS. These and other chains will open a roster of new locations in the coming quarters, indicating some major retailers are doubling down in expanding metros and well-performing submarkets by relinquishing properties in areas deemed suboptimal. A portion of the space returned to the marketplace may be absorbed quickly, based on the recent demand among off-price retailers for terminated Big Lots, Rite Aid, and Saks Off 5th leases. Additionally, scant convenience store and quick-service vacancy should facilitate tenant interest in available space suitable for these uses.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

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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