

## Retail Powerhouses Maintain Dominance Despite Tempered Consumption

**Retail spending slows amid economic concerns.** A moderating economy became more evident in February as core retail sales advanced 2.9 percent annually, following a revised gain of 4.3 percent one month earlier. Unresolved trade tensions as well as a weakening international economy continue to weigh on domestic growth, straining retail sales in the process. Over the past few months, spending habits have been sporadic as they moved with shifting levels of consumer confidence.

**Retailers shake up growth plans to broaden customer base.** Despite softened spending across several categories, general merchandise vendors performed well in February, posting a 4.6 percent yearly jump. This includes companies like Target and Walmart, which are making significant changes to match evolving consumer trends. Target is ramping up the expansion of small-format stores, straying from suburbia as it looks to plant roots in dense, urban areas and near college campuses. These stores will help the retailer draw shoppers that would have been out of reach in the past. Cap rates for small-format locations sit in the mid-5 percent band, up to 300 basis points below their suburban counterparts. Walmart is also refining its growth strategy, strengthening its online platform to better compete with Amazon. The retail sector continues to gain investor interest as more companies adopt an omnichannel model.

**Heightened economic optimism pushing consumers out of their kitchens.** With wage growth picking up and consumer confidence maintaining historically high levels, spending at bars and restaurants remains strong. This subset is averaging 6.5 percent growth over the past year following a 2.8 percent reading during the previous 12 months. Food and drink establishments keep finding ways to make their space more experiential as an additional layer of defense to e-commerce. For many retail centers, restaurants are viewed as a new type of anchor tenant due to the foot traffic they can generate.

## Developing Trends

**Consumer confidence fluctuates as economic matters remain in question.** After rising 8 percent in February on a monthly basis, consumer confidence dipped almost 6 percent in March. Confidence still sits historically high despite several matters weighing on economic optimism.

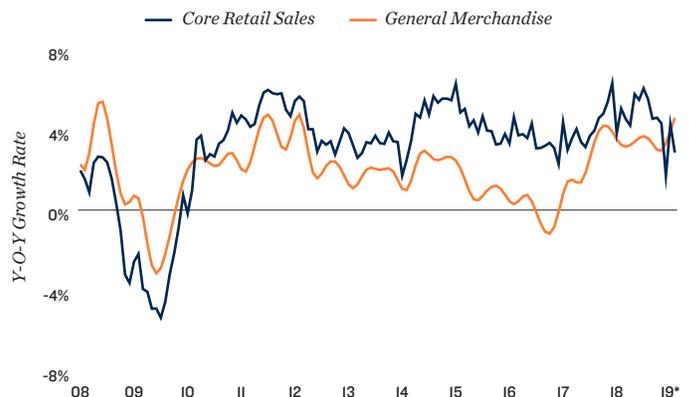
**Target takes next step to win over urban shoppers.** In 2019, Target will open 30 small-format stores in markets like Los Angeles, New York City and Washington, D.C., in addition to a number of college campuses. These new layouts will average approximately 40,000 square feet, one-third the size of Target's conventional design.

**Online sales surge for world's largest physical retailer.** Walmart's vastly improved digital infrastructure is beginning to pay dividends as the company reported online sales growth of 40 percent for 2018. A better search functionality on the retailer's website and quicker delivery remain focal points in Walmart's ongoing competition with major online retailers.

2.9% Core Retail Sales Growth Y-O-Y

4.6% General Merchandise Growth Y-O-Y

### Legacy Retailers Propel Spending



\* Through February

Sources: Marcus & Millichap Research Services; Marcus & Millichap MNET; Bureau of Economic Analysis; The Conference Board; CNBC; CoStar Group, Inc.



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