

## Retail Spending Strong, Growth Emerging From Diverse Sectors

**Consumer spending active in midst of uncertainty.** For the second consecutive month, core retail sales generated 4.5 percent annual growth as the softening economic outlook had little effect on shopping habits. While spending has moderated relative to last year, consumption trends are gaining traction, setting the stage for a potentially strong holiday season.

**New trends surface as retail sales build momentum.** After dipping to just 2.5 percent growth in the first quarter, consumption has been revived. Bars, restaurants and pharmacies remain notable catalysts for increased spending, but new trends have begun to emerge. Grocery stores sales are witnessing a modest rejuvenation, with sales delivering consistent annualized growth in the upper-4 percent range in recent months. Expansions by Aldi, Lidl and Sprouts Farmers Market, along with significant reinvestment into current stores by a number of other chains, appear to have boosted grocery store performance. Spending at sporting goods retailers is also trending up, notching two straight months of substantial gains following 36 consecutive months of relative inactivity. Improved omnichannel capabilities of Dick's Sporting Goods and REI are supporting this resurgence.

**Apparel industry in transformation again.** The retail sector remains in transit to reinvention, with the clothing industry facing additional headwinds. Apparel stores continue to feel the brunt of retail's revolution as companies including Charlotte Russe, Forever 21 and Gymboree recently filed for bankruptcy. While certain segments of the fashion sector remain strong, the often fickle consumer preferences have once again turned against recent favorites. Closed locations have provided investors with new opportunities, allowing them to retenant their properties with more sustainable retailers. Underwriters are beginning to put a much heavier emphasis on tenant mixes, in addition to preferring loan-to-value (LTV) ratios in the 60 to 70 percent range.

## Developing Trends

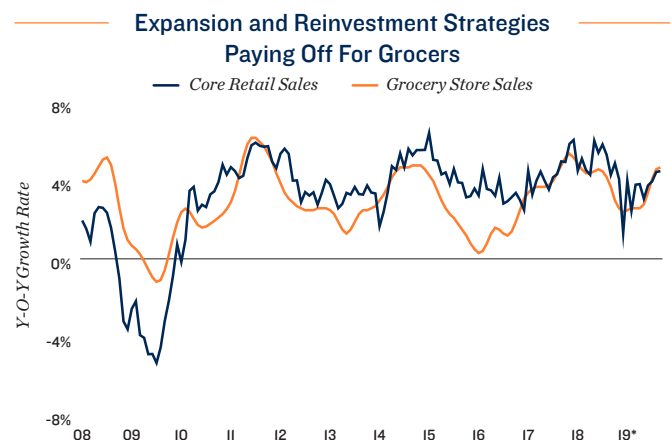
**Retailers benefiting from record-low joblessness.** The national unemployment rate dropped to its lowest level in 50 years at 3.5 percent in September. Sustained job creation and rising wages have boosted disposable income to record levels, empowering increased consumption across all types of retail.

**Bankruptcies offering investors new opportunities.** Forever 21's recent Chapter 11 bankruptcy filing includes the planned closings of nearly 180 stores, located in regional malls and retail centers. Revitalizing these locations will be crucial for owners as they retenant the space or leverage adaptive reuse strategies to reposition the assets.

**Yield spreads revert to more stabilized state.** The 10-year and three-month Treasuries recently uninverted after effectively remaining upended for five months dating back to late May. An inversion of these yields is often recognized as an indicator of an impending recession.

4.5% Core Retail Sales Growth Y-O-Y

4.7% Grocery Store Sales Growth Y-O-Y



\* Through September

Sources: Marcus & Millichap Research Services; The Conference Board; CoStar Group, Inc.; U.S. Census Bureau



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