RESEARCH BRIEF

Marcus & Millichap

RETAIL SALES

DECEMBER 2020

Spike in Positive Cases Results in Tighter Lockdowns, Pares Spending

Dwindling income and renewed closures push retail sales lower. The last of the supports from the CARES Act are winding down, including an extension of state-level unemployment benefits that will expire at the end of this year. Furthermore, several major cities have ordered businesses to temporarily shutter or reduce capacity. As a result, core retail sales declined 0.8 percent in November, marking the second consecutive monthly decline. Year over year, core retail sales have climbed 5.9 percent, largely due to a lack of alternative spending options. Only a handful of sectors that have already thrived through the health crisis posted a monthly gain.

Essential employers return to spotlight. Retail properties that host grocery stores, quick-service restaurants and big-box stores should outperform going into 2021. Tighter restrictions on indoor and outdoor dining and cooling temperatures are pushing shoppers back to grocers, which recorded an increase in sales of 1.9 percent last month. A lack of in-person dining will also encourage consumers to frequent the remaining open restaurants well into next year, especially if the upcoming holidays produce a spike in cases similar to Thanksgiving. Properties with big-box retailers, such as Walmart and Home Depot, will also generate traffic as shoppers aim to reduce trips and focus on home improvement projects again amid limited entertainment options.

Year-over-year retail sales show isolated weakness. Only four sectors, and one subsector, are significantly below the year-ago level of retail sales. Some will make a full recovery shortly after the distribution of a vaccine, while others have a steeper hill to climb. Restaurants and bars, where spending is down 17.2 percent annually, will see the return of customers who have collectively saved approximately $2.5 trillion since the onset of the health crisis. Clothing and gasoline stations, meanwhile, may take longer to return to pre-pandemic spending if hybrid work schedules are widely adopted. A decline in the need for business attire and fewer commuters have already resulted in annual retail sales declines of 16.1 percent and 17.1 percent, respectively.

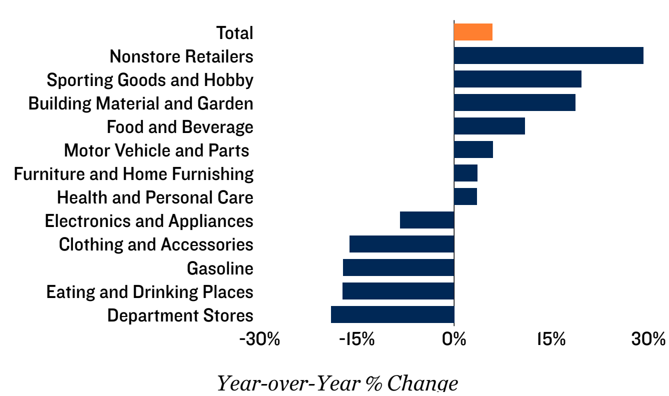
End of Health Crisis Coming Into Focus

Stimulus is on the horizon. Following the election, congressional leadership appears to be getting serious about passing a relief bill that should limit further economic damage until the approved vaccines are distributed. The $900 billion proposal could include an unemployment extension and federal subsidy, along with more funding for the Paycheck Protection Plan, and stimulus checks. Although many small retailers have permanently closed, those that have survived can see light at the end of the tunnel.

Retail property investors benefit from greater certainty. A stimulus package that carries the economy through the new shutdowns and vaccine distribution would enable owners to begin cementing plans with tenants and lenders. Outside some isolated sectors, most retailers are expected to thrive when the global health crisis reaches a conclusion. Additionally, owners may be able to attract new restaurants, salons and dry cleaners to existing space with limited tenant improvement necessary.

5.9% *Annual Gain in Core Retail Sales in November*	-0.8% *Monthly Change in Core Retail Sales in November*

Annual Retail Sales Weakness Concentrated



Sources: Marcus & Millichap Research Services; U.S. Census; Bureau of Economic Analysis

Follow Us on Twitter @MMReis