RESEARCH BRIEF

Marcus & Millichap
THE VARA GROUP

RETAIL SALES

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Consumer Resiliency Tested as Ramifications of Tariffs Hit Store Shelves

Recent spending may provide a window into months ahead. Core retail sales rose 4.4 percent on a year-over-year basis in July; however, consumers are beginning to pullback. When accounting for core CPI inflation, which rose 0.3 percent last month, core retail spending dipped 0.1 percent in July. Larger declines were registered across discretionary categories — electronics, building and gardening materials, and restaurants and bars — while necessity-based retailers — grocery and health and personal care stores — noted real-term gains. Moving forward, steeper price hikes may be on the horizon for consumers. In July, the Producer Price Index rose at its fastest pace in more than three years, with businesses likely to pass costs onto shoppers. This dynamic, along with declining consumer sentiment and a recent slowdown in hiring, points to a potentially volatile second half for the retail sector. Fortunately, property fundamentals remain historically strong.

Consumers' prioritization of necessities favors supermarkets. Spending at grocery stores reached a record mark in July, with sales up 0.4 percent monthly. This real-term improvement signals that households are eating at home more frequently as the cost to dine out continues to rise. Last month, the price for food away from home rose 0.3 percent, while the cost of food at home dipped 0.1 percent. Should these readings continue to trend in opposite directions, spending and foot traffic at grocers could further improve. A number of chains appear confident in the sector and are plotting expansion — a list that includes Publix, Trader Joe's, Sprouts, T&T Supermarket and Stater Bros.

Restaurants may face challenges. Regarded as a standout retail category over the past year, the restaurants and bars sector is facing headwinds. Rising labor and wholesale food costs are impacting menu pricing. In July, spending fell 0.4 percent when compared with June, which is the fourth such decline in the past eight months. Yet sales on a year-over-year basis stayed elevated — up 5.6 percent. This latter dynamic is aiding leasing, with the sector entering July on a 19-quarter streak of positive net absorption.

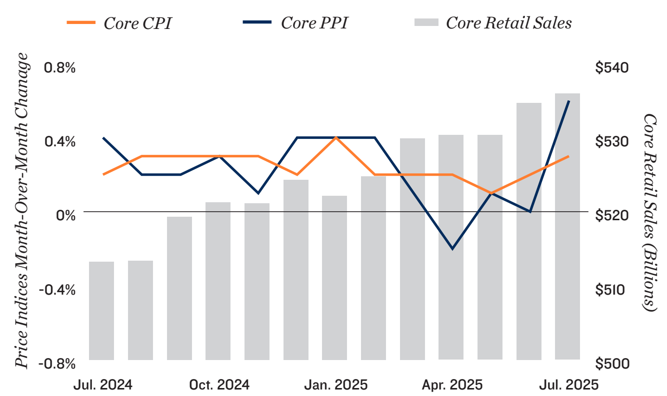
Categories synonymous with education a recent bright spot. Earlier start dates for many schools nationwide required more households to conduct their back-to-school shopping in July. This shift and higher costs for school supplies lifted sales across department, apparel and sporting goods stores by at least 0.7 percent last month. In the wake of back-to-school shopping season, these categories could face challenges. Each is moderately to highly exposed to tariffs, due their sizable inventories of high-risk items.

Sector registers encouraging deal flow. Shifting consumer behavior is likely to affect investor sentiment, but retail assets should remain a favored asset class among active buyers. During the second quarter of 2025, the number of retail transcations closed reached a three-year high. These trades account for nearly 40 percent of all major commercial real estate property sales. Moving forward, assets net leased to high-credit tenants should garner significant attention among buyers seeking a less management-intensive ownership model that reduces their out-of-pocket costs.

4.4% *Year-Over-Year Increase in Core Retail Sales (July)*

0.2% *Monthly Rise in Core Retail Sales (July)*

Impacts of Tariffs Beginning to Take Hold



Note: Core retail sales exclude auto and gasoline purchases; Core CPI for all items less food and energy; Core PPI reflects final demand less foods, energy and trade

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Federal Reserve; Placer.ai; U.S. Bureau of Labor Statistics; U.S. Census Bureau