Marcus & Millichap releases new Retail Sales Research Brief: Implications of COVID-19 on retail emerge

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New York, NY Marcus & Millichap released their new Retail Sales Research Brief. Retail sales dropped a record 8.7% in March as much of the country shuttered all but essential retailers and social distancing guidelines stemmed traffic at others. Core retail sales, which exclude auto and gas, dipped 3.1%, highlighting the divided nature of the strain on retail. March's figure offer a glimpse into the damage done to retailers by shutting down much of the consumer-based economy. However, April has the potential to see the lowest absolute retail sales during the downturn, while stimulus checks boost sales in May. The average date for statewide stay-at-home orders is March 27 and 18 states enacted the order after April 1 or not at all.

Grocers step forward to fill gap by closed restaurants

During early 2015, sales at grocery stores were surpassed by food and drinking places for the first time and the gap widened until March of this year. Grocery stores reported a 26.9% jump in sales last month, while food services and drinking places reported a decline of 26.5%. Of the $46.2 billion decrease in month-to-month retail sales, restaurants and bars accounted for $17.5 billion. The path forward for these establishments will remain cloudy until a vaccine is widely used. However, America's appetite for restaurant meals should keep national credit quick-service restaurants operating due to drive-through options.

Several other concepts proving immune to virus

Building material, and garden equipment and supplies dealers recorded an escalation of $550 million in March as furloughed workers took the opportunity to complete home projects. Health and personal care stores, which includes pharmacies and drugstores, increased sales by $1.3 billion, largely due to overlapping product lines with grocers. Most stay-at-home orders remained through the end of April before some potential openings targeted by state and federal authorities beginning in May. As a result, these stores should continue to perform well and some of the pantry stocking reported at the end of March bled over into the early weeks of April.

Beyond restaurants, some concepts in for bumpy ride

Most notably, movie theaters may not return to normal operations for over a year. Although theaters will likely limit seating to begin showing films, a cultural shift to social distancing could undermine the bottom line of cinema owners, much like tourist destinations, until a vaccine is in widespread use.

Clothing and accessories retailers, which posted a 50% decline in month-to-month sales, can expect a long shift as fewer consumers shop for professional and leisure ware. Auto dealers and furniture stores could see a faster turnaround if employees confident in their paychecks take advantage of low interest rates.

Big-Box Retailers See Surge in Traffic; Investors Sort Out Winners and Losers; Wholesalers saw surge in traffic in March

Buyers rushed to wholesalers and big-box retailers to grab supplies as the seriousness of the pandemic came to light in early March and stay-at-home orders became foreseeable. General merchandise stores posted a $3.8 billion increase in sales last month, which includes a $2.1 billion decline at department stores. Based on soaring foot traffic in the first two weeks of March at Walmart, Target, Costco and Sam’s Club, actual retail sales at these stores may come in closer to $6 billion. These stores are projected to post strong numbers in April, though month-over-month numbers could see flatter growth.

Real estate performance highly dependent on tenant mix

Grocery-anchored centers will be attractive as the transactional market regains some momentum. Social distancing, whether mandated or by choice, will delay a restaurant recovery for several months, keeping traffic at grocers amplified. Underwriting these multi-tenant assets will be difficult for the next couple of months, though the hold period for these properties should reach beyond government recommendations. Buyers may consider acquiring an asset that needs backfilling if conditions permit. Single-tenant, net-leased properties also garner investor attention. Strong performance for many essential concepts, healthy cap rates, and the upkeeps in a 1031 exchange are keeping buyer interest prevalent.