

Surprise!

Retail real estate is thriving

Contrary to what many believe, the retail real estate sector may offer the resilience income and growth investors are seeking. Compared to the other major real estate sectors, retail could offer higher yields and likely less competition for investor acquisitions.

Despite shifting consumer behaviors and the threat of a potential recession, necessity retail (grocery, discount and services) has performed particularly well. Even as consumers scale back on spending, they continue to purchase essential items. And hybrid working models mean shoppers are heading to their local retail centers.

U.S. RETAIL RECOVERED FROM THE PANDEMIC

Grocery-anchored retail is set up for solid performance, mainly because renewed retailer demand and lack of new construction have combined to produce historically low vacancy rates.

Retailers are continuing with strategic store growth plans. Despite low availability, a dearth of new supply,

rising rents and high construction costs, retailers are following their customers close to where they live and work in the suburbs.

With retail vacancy at a historic low of 3.9%, finding high-quality space has been a clear challenge for growing retailers. Strong demand for space has continued with leasing activity reaching 140.6 MSF through the first half of 2024.¹

HIGH DEMAND MEETS SLOWING SUPPLY

Necessity retail is typically concentrated in local neighborhood strip centers. New supply has slowed in the past six years, with fewer new properties coming online compared to more discretionary retail centers. Meanwhile, lower vacancy rates in grocery-anchored retail have

helped support rents, resulting in income for real estate investors.

EUROPEAN RETAIL HAS PROVEN RESILIENT

Macroeconomic headwinds in Europe led to continued market correction in 2023, with cap rates rapidly expanding across the real estate market. While the European retail sector has not gone unscathed, it proved remarkably more resilient against capital value loss versus its office and logistic counterparts. This is partially due to the retail market's pricing reset. As property yields soften across all sectors, European retail continues to provide elevated income returns driving strong performance and gaining increased investor interest.

Main Street at Kingwood

Houston, Texas



We believe grocery-anchored and convenience retail assets (namely retail parks) offer the strongest opportunities. From an occupier side, retail parks favor a diverse mix of occupiers less reliant on fashion, which continues to be impacted by online sales.

Retail parks have greater compatibility with e-commerce through click-and-collect facilities, allowing assets to form hybrid retail and logistics components driving growth. We believe that click-and-collect will remain a key strategy, and growth in this sector is expected to outperform pure channel sales.

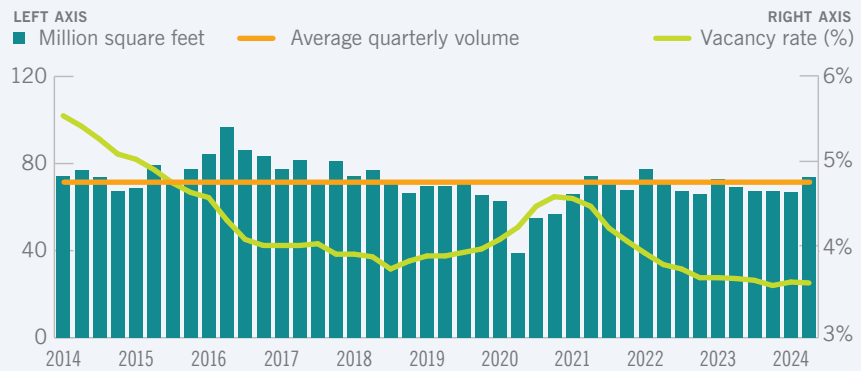
OUTLOOK

Global retail markets differ due to cultural nuances and local market drivers. However, the trends supporting necessity and convenience retail investments transcend continental divides.

Investors can take advantage of disruption in the capital markets, seek discounted asset opportunities and capitalize on the stable income returns that necessity retail can provide. Traffic at these retail assets has proven resilient and defensive against e-commerce trends, reinforcing our view that not all retail is created equal.

TENANTS REMAIN ACTIVE IN HUNT FOR NEW LOCATIONS

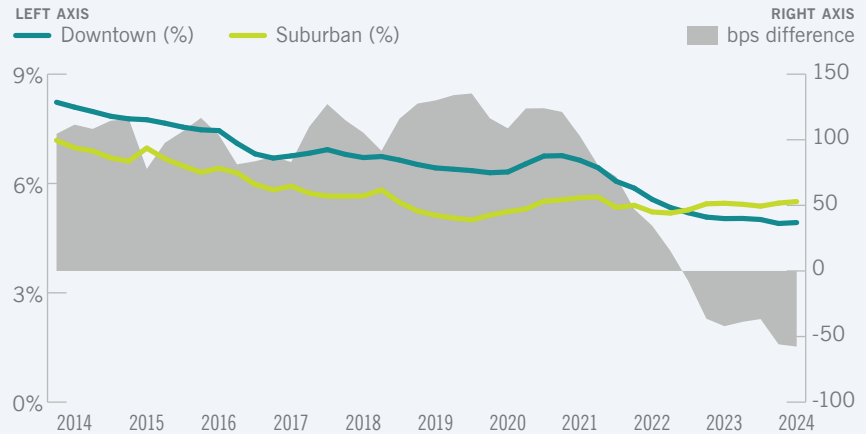
Leasing activity, million square feet, and vacancy



Data source: CoStar, June 30, 2024

RETAILERS ARE FOLLOWING THEIR CUSTOMERS TO THE SUBURBS

Vacancy rate



Data source: CBRE, June 30, 2024

For more information, please visit nuveen.com.

Endnotes

1 Data source: CoStar, Aug 2024

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