

NATIONAL REPORT

Marcus & Millichap

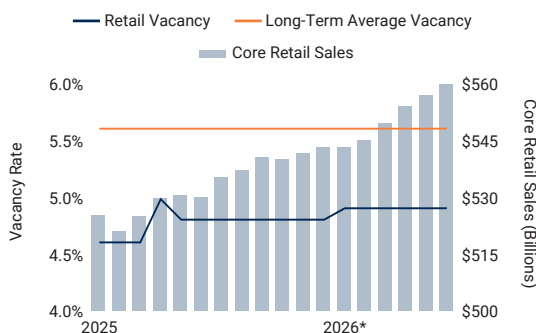
RETAIL 3Q/26

Property Performance Mirrors Consumers' Fortitude, Reinstilling Investor Confidence

Favorable supply-demand dynamic exists. The retail market recorded positive net absorption in the first half of 2026 despite economic and property-level headwinds that reduced households' spending power and increased tenants' operating costs. As such, vacancy rose just 10 basis points over the six months to 4.9 percent in June, a rate only 20 basis points above the prior decade's average. Sector demand, however, will continue to be tested. Renewed conflict with Iran is expected to reignite inflationary pressure that could affect retailers' profitability, households' discretionary spending, and the wage growth-inflation disparity. Still, the retail sector is well positioned, with more than 20,000 new leases executed nationwide during the first half, totaling approximately 75 million square feet. These commitments will translate into a wave of second-half move-ins that will largely offset the impact of upcoming store closures. Additionally, the sector's construction pipeline accounted for just 0.3 percent of existing inventory in July, limiting options for those retailers without build-to-suit projects underway.

Performance of other sectors facilitates demand for retail space. The nation's count of occupied apartments rose by nearly 285,000 units in the first half of this year, with the multifamily sector entering July after nine consecutive quarters of positive net absorption. Concurrently, office-using tenants absorbed more than 40 million square feet in the same period, with positive absorption across 38 of 50 major metros supporting the largest first-half tally in the past seven years. This greater residential density and increased office usage could lift consumer demand and foot traffic across many markets' prominent retail corridors, aiding property owners' retention and backfilling efforts. This dynamic may be broad-based, as half of the nation's 50 major metros are projected to record declines in multifamily and office vacancy in 2026 — a list highlighted by metros in the South, Texas, the Mountain West, and Northern California.

TENANT DEMAND REMAINS HISTORICALLY FAVORABLE



* Core retail sales through June 2026; 2Q Vacancy

2026 FORECAST



EMPLOYMENT

0.5% increase Y-O-Y

Employers added 552,000 positions during the first half of 2026, including more than 46,000 retail trade jobs. Overall hiring, however, slowed in June. This, along with renewed uncertainty surrounding geopolitical conditions, inflation, and interest rate movement, is clouding the outlook for second-half job creation.



CONSTRUCTION

32 million square feet completed

The nation's retail inventory expands by 0.4 percent for a third straight year, yet the volume of square footage added represents the lowest annual tally since at least 2000. Nearly 30 major metros will see fewer completions year-over-year, including 14 of 18 primary markets.



VACANCY

20 basis point increase Y-O-Y

Supported by a well-leased construction pipeline and backfilling efforts by expansion-minded retailers, positive net absorption will be recorded in 2026. Still, vacancy inches up to 5.0 percent by year-end. While this rate is 60 basis points below the sector's long-term mean, it does exceed the prior five-year average by 40 basis points.



EFFECTIVE RENT

1.2% increase Y-O-Y

The average asking rent for available space rises for a 14th straight year, reaching \$23.17 per square foot, despite a moderate increase in national vacancy. Rent growth will vary widely by property type and metro, with quick-service restaurant space and a group of Sun Belt markets poised to see the largest annual gains.



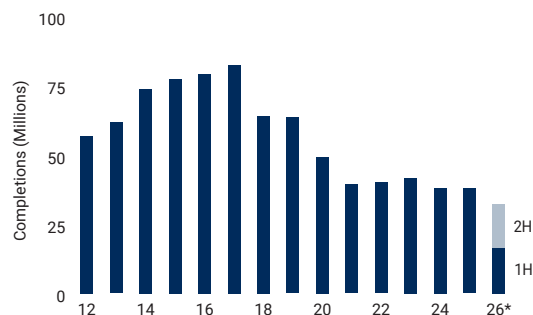
Most Major Markets and Retail Property Types Face Minimal Near-Term Supply Pressure

The 16.4 million square feet of retail space added to inventory during the first half of 2026 marked the second-lowest total for a two-quarter period on record, expanding stock by 0.2 percent. Supply pressure is projected to remain historically low for the rest of this year, with a collective 15.6 million square feet slated for delivery across the nation's 50 major metros during the second half. More than 40 percent of this space is in Texas' four major markets, led by Dallas-Fort Worth. Apart from these metros, only Phoenix, Portland, Philadelphia, and Cincinnati are projected to add more than 500,000 square feet of space during the final six months of 2026.

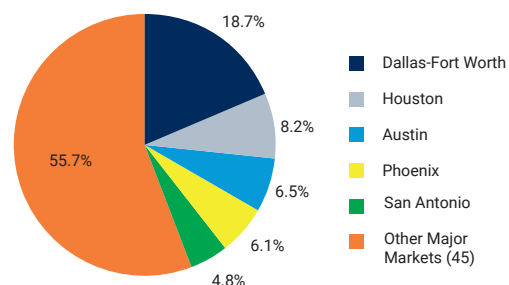
Less than 6.5 million square feet of single-tenant space came online during both the first and second quarters of 2026, a feat registered only three times before this year. The sector's active pipeline, which as of mid-July comprised roughly 13.1 million square feet, indicates the recent period of historically subdued supply pressure will extend to future quarters. Built-to-suit convenience stores and supermarkets account for nearly 70 percent of this space, with less than 1 million square feet of quick-service restaurants under construction.

The 2 million square feet of shopping center space added to inventory during the second quarter of this year ranked among the lowest multi-tenant delivery totals for any three-month period since 2012. Most multi-tenant property types are positioned to grapple with minimal near-term supply pressure, as well-leased community and neighborhood centers accounted for 60 percent, or 9.6 million square feet, of the active multi-tenant pipeline as of mid-July.

SUPPLY ADDITIONS FALL TO HISTORIC LOW



DELIVERIES CONCENTRATED IN FIVE MARKETS**



* Forecast ** Share of 2026 Completions

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.



Cap Rates Maintain Stability

6.6% **7.3%**
Single-Tenant Multi-Tenant
Average Cap Rate



Trading Accelerates

22.9% **18.2%**
Single-Tenant Multi-Tenant
Y-O-Y Increase in Sales Activity



Sales Activity Improves Across Market Types

14% to 22%
Y-O-Y
Increase in Primary, Secondary, and Tertiary Market Sales



Institutional Capital Reengages With Retail

46%
Y-O-Y
Rise in Institutional Equity Fund Sales Volume

INVESTMENT HIGHLIGHTS

A stretch of uncertainty has boosted the appeal of real assets with reliable income streams, prompting more investors to target single-tenant net-leased properties, which carry less perceived risk. Concurrently, heightened backfilling of vacant spaces is steering other investors to shopping centers where upside can be captured through re-tenanting, property upgrades, and management efficiencies. As such, overall retail trading has risen 21 percent year-over-year during the 12 months ended in June — the largest gain among primary commercial real estate sectors.

Active investors should favor listings with high-credit tenants and built-in rent escalators, as well as recently renovated properties with long-term leases in place, if inflationary risk remains. Assets renovated within the past five years are likely to command a premium, having traded at an average of more than \$700 per square foot over the past 12 months.

A cohort of investors remains undeterred by vacant single-tenant buildings and shopping centers with occupancy issues, confident they can backfill these spaces as many retailers are achieving expansion by leasing existing properties. As such, challenged neighborhood and community centers, along with dark restaurants, could draw a broader buyer pool.

The number of \$20 million sales recorded during the first half of 2026 ranked as the second largest tally on record for a January-June period. A more active base of institutional capital and record retail pricing could generate additional sell-side activity during the second half.

Note: Data as of 2Q 2026

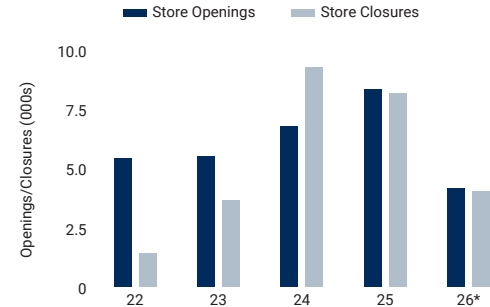
Sources: CoStar Group, Inc.; Real Capital Analytics



Store Closures-Openings Dynamic Bucks Common Narrative

Big-box openings highlight recent move-ins. Approximately 4,130 store openings were announced in the first half of 2026, which slightly exceeded closures. These recent openings translated to the absorption of 68 million square feet, while shutterings relinquished approximately 36 million square feet, resulting in a net rise in occupied space. During the second half, some larger retailers will close underperforming stores while doubling down in expanding metros. The latter may be achieved by opening smaller, well-located stores in targeted markets, which could improve these retailers' efficiency and after-tax profit margins. Meanwhile, the spaces returned to the marketplace by these chains may be absorbed relatively fast as many off-price retailers and nontraditional tenants remain expansion-minded.

OPENINGS AND CLOSURES ALIGN



* Forecast

Source: PNC Real Estate Market Analytics

Single-Tenant

Sector well positioned based on current demand. Vacancy remains tight among food-centric property types, with ongoing backfilling efforts aiding challenged segments. As such, the single-tenant sector entered July with a vacancy rate 70 basis points below its long-term mean. While department and drug store vacancy remains above the sector's 4.6 percent overall level, both property types recorded improvements in leasing velocity during the first half, with more than 1.1 million and nearly 500,000 square feet absorbed on net, respectively.

Fundamentals



4.6%
2Q Vacancy



\$23.22
Average Asking Rent
(per sq. ft.)

Grocers eye strategic growth. Supermarket move-ins accounted for more than half of single-tenant net absorption over the 12 months ended in June, with Publix, Trader Joe's, Sprouts Farmers Market, and H-E-B among the most expansion-minded chains. This growth is occurring as grocers face heightened competition from big-box, dollar store, and online options. As such, some grocers are pursuing initiatives to grow their regional market share and improve their supply chain efficiency, highlighted by Kroger's agreement to acquire Giant Eagle, while also dropping plans to build 80 Harris Teeter locations.

Multi-Tenant

Vacancy likely to hold in the near term. Across multi-tenant property types, only strip centers recorded net relinquishment during the 12 months ended in June. This overall absorption points to backfilling efforts and tenant retention across many shopping centers. Demand for community, neighborhood, and power center space is apparent, as each property type's second-quarter absorption total reached at least a two-year high. More broadly, tenants inked lease commitments for 60 million square feet of space during the first half, move-ins that should help offset the impact of store closures.

Fundamentals



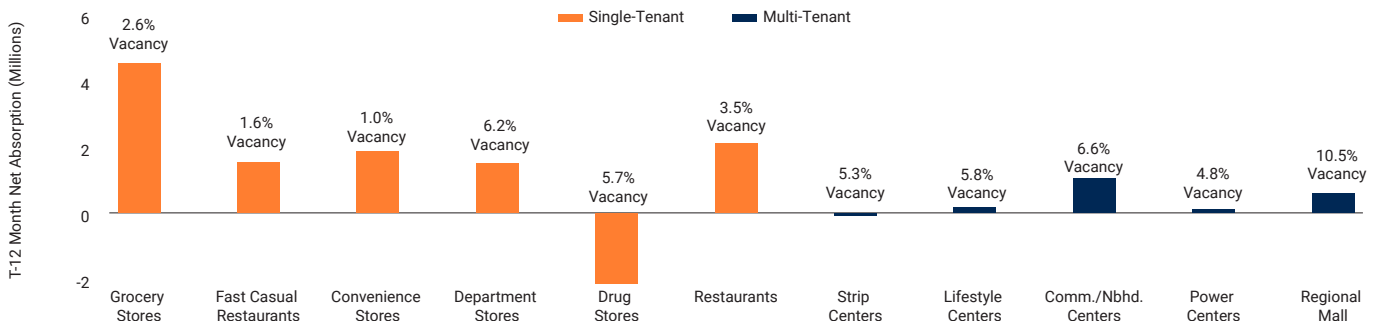
5.8%
2Q Vacancy



\$22.83
Average Asking Rent
(per sq. ft.)

Centers lean on diverse tenant mix. Nontraditional and experiential retailers accounted for a growing share of new leases in shopping centers during the year ended in June, with this dynamic most evident across lifestyle and neighborhood centers. The growing presence of fitness-centric tenants, entertainment options, and healthcare providers in retail should help property owners faced with recent move-outs.

PERFORMANCE VARIES BY PROPERTY TYPE



* Note: Data as of 2Q 2026

Sources: CoStar Group, Inc.



Lender Appetite for Retail Apparent, But Rate Volatility May Impact Future Spreads

Outlook generally positive despite geopolitical conflict. After a leadership change, the Federal Reserve is focusing on tighter inflation discipline and scaling back its forward guidance. Following July's CPI reading, financial markets are now pricing for at least one increase to the federal funds rate by year-end. The shift in the Fed's approach, and the potential for renewed inflationary pressure, could translate into further volatility around the 10-year Treasury, which sat at 4.7 percent in late July – its highest level since January 2025. Meanwhile, the SOFR benchmark, which is more closely tied to federal funds rate movement, sat at roughly 3.6 percent, relatively unchanged over the past month. The extent to which lenders adjust their borrowing rates in response to long- and short-term yield volatility remains unclear. However, investors acquiring net-leased assets occupied by top-tier tenants are likely to obtain the best terms, particularly those with in-place leases longer than 10 years. Supermarket-anchored centers, meanwhile, will rank among the most approachable property types for CMBS and life insurance sources.

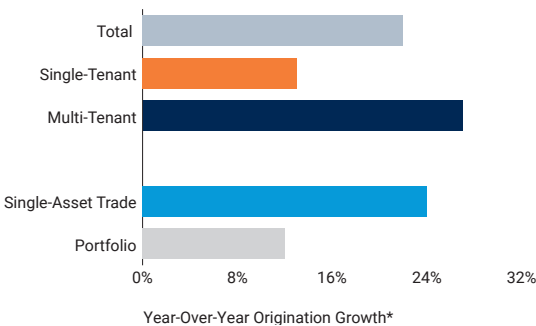
LENDER TYPE	AVERAGE LOAN SIZE	AVERAGE LTV	SHARE OF RETAIL LENDING
Regional-Local Bank	\$5M	65.5%	32%
CMBS	\$30.8M	60.2%	27%
National Bank	\$12.5M	65.2%	15%
Life Insurance	\$11.4M	57.7%	12%
Investor-Driven	\$9.7M	65.5%	7%
International Bank	\$12.9M	61.2%	5%

Source: Real Capital Analytics
Note: Lender averages and share of retail lending for 2025 calendar year. Lender composition and origination data includes transactions sold for \$2.5 million and greater.

Sizable improvement in liquidity registered. Lender appetite for single-tenant assets and shopping centers has improved, with a 148 percent year-over-year increase in retail mortgage originations in the first quarter of 2026. Continued consumer resilience and limited supply-side pressure should continue to facilitate lender competition for deals. For borrowers, this could translate into higher LTVs from certain sources, as many lenders relaxed their criteria last year. For private investors, local and regional banks, as well as investor-driven sources, will continue to provide the highest leverage – 65 to 75 percent – for deals under \$10 million.

Retail delinquency remains measured. Sector distress remains below both previous peaks and apartment and office sectors' levels, accounting for about 17 percent of outstanding commercial real estate distress in the first quarter of 2026. While some lenders may turn over troubled holdings, future sector distress indicators are also moderate, as retail assets accounted for roughly 14 percent of potential distress in March. Additionally, CMBS loan delinquency for retail assets was 6.1 percent in June, driven by three newly troubled regional malls and an open-air shopping center.

RETAIL LENDING ACTIVITY PICKS UP



* Trailing 12-month period ended in February for sales \$2.5 million and above
Source: Real Capital Analytics

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Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Mortgage Bankers Association; Real Capital Analytics; RealPage, Inc.; S&P Global; Trepp; U.S. Bureau of Labor Statistics; U.S. Census Bureau