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REAL ESTATE

Global retail in the age of convenience culture

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BEYOND THE HEADLINES: RETAIL'S REVIVAL

The necessity retail sector continues to demonstrate resilience in today's dynamic market environment. Across global markets, assets anchored by grocery, discount retail, health and wellness and essential services have maintained strong performance despite shifting consumer preferences and economic headwinds. This resilience is particularly evident in growing suburban or urban-fringe locations, where retailers are actively expanding their footprint to meet enhanced consumer demand for convenient, accessible retail options.

WHAT'S WORKING FOR NECESSITY RETAIL?

Nuveen Real Estate's research indicates that successful necessity retail investments share three fundamental characteristics:

- Strategic locations in areas with favorable demographic trends
- An ability to attract and retain best-in-class tenants
- Demonstrated sustainable traffic patterns resulting from market dominance within their respective trade areas

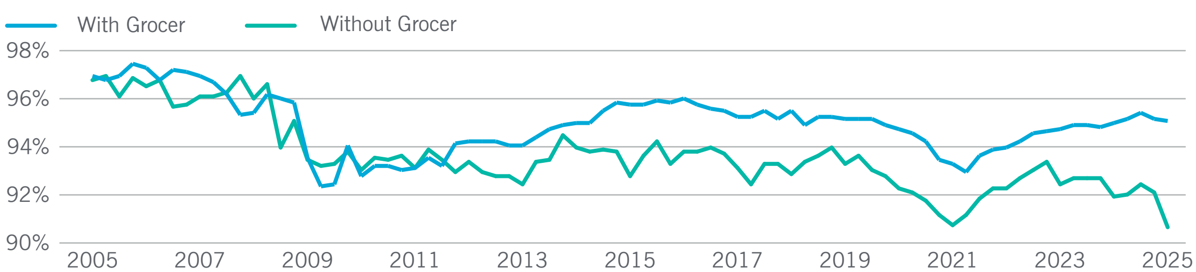
Retail assets that generate frequent consumer visits—typically two to three times weekly—and enable multiple-purpose shopping trips, will be best-placed to capitalize on the tailwinds supporting retail, in our view. These properties present opportunities for value creation through strategic tenant mix optimization, capture of accretive rent spreads, credit enhancement and thoughtful activation of void space with in-demand retailers.

EVOLUTION OF CONSUMER BEHAVIOR

Consumer behavior has undergone significant evolution, shaped by post-pandemic suburbanization trends, increased work-from-home adoption and value-seeking behavior in response to inflationary pressures.

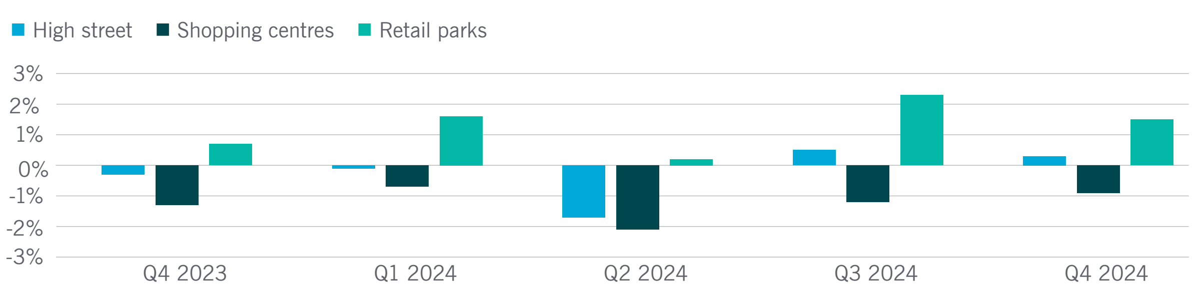
Job insecurity and the broader economic environment are expected to sustain this focus on necessity retail categories, benefiting neighborhood centers. In the U.S., occupancy rates at grocery-anchored centers have been outperforming those that are not anchored by a grocer, according to the NCREIF Retail Property Index (Figure 1). While in the U.K., footfall at retail parks which often service necessity retail and are located close to residential neighborhoods continues to grow post-pandemic with growth exceeding that of malls and high streets (Figure 2).

Figure 1: Strip center occupancy



Source: NCREIF Retail Property Index, as of March 2025

Figure 2: U.K. footfall by retail format (% p.a.)



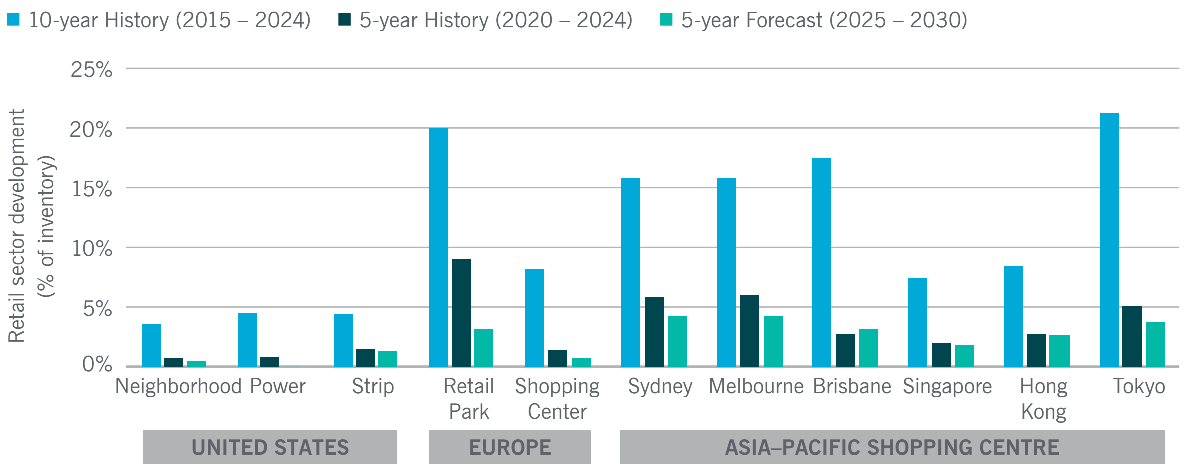
Source: Savills Research using MRI data as of March 2025

Regional consumer health varies but shows overall strength across major markets. In the U.S., robust employment continues supporting retail spending, particularly essential purchases and services. European consumers maintain strong balance sheets, with savings rates approximately 200 basis points (bps) above long-term averages. Market analysts anticipate positive impacts from declining interest rates, lower savings ratios and project spending growth across major European markets. In the Asia Pacific region, savings rates are projected to align with 2010 – 2019 averages, supporting sustained consumer spending over the long term.

MINIMAL SUPPLY RISK

The decline in investor interest in the retail sector has led to a significant reduction in new retail developments. Rising development costs, driven by increased material and labor expenses, have further constrained new supply. This limited supply supports stable retail rents, particularly for well-managed retail assets located in large residential catchment areas. Retailers increasingly prioritize these high-performing retail properties due to their ability to attract consistent foot traffic.

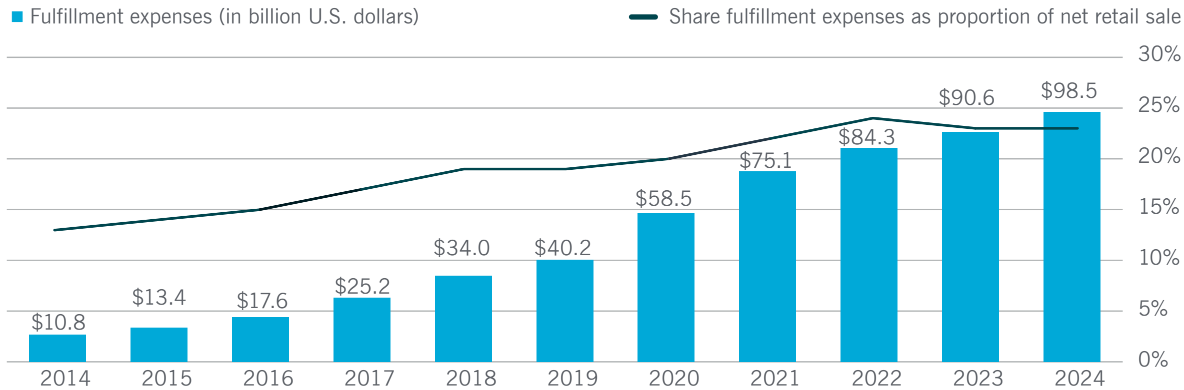
Figure 3: Retail development pipeline slowing



Source: U.S. Costar, data as of April 2025. Europe PMA, dataset is Pan European 16 market average & includes all pipeline under construction, as of April 2025. Asia-Pacific JLL, CBRE, Rating and Valuation Department, Japan Council of Shopping Centers, Nuveen Real Estate, as of June 2025.

Figure 4: Amazon's global fulfilment costs as a percentage of net retail sales

(Net retail sales exclude revenue from AWS and subscriptions)



Source: Amazon Annual Reports as of June 2025

DIGITAL INTEGRATION RESHAPES PHYSICAL RETAIL

The e-commerce narrative has evolved significantly from its initial perception as a threat to physical retail. Today, rising fulfilment costs as demonstrated by Amazon (Figure 4) will impact retailer profitability and in-store fulfillment has become a cost-effective method of distribution. Digital commerce now serves as a complementary channel that enhances brick-and-mortar operations. Industry data suggests that click-and-collect facilities in major European markets — including France, the U.K. and Germany — are projected to grow around 20% annually through 2033. Additionally, in the U.S. retailers such as Target and Walmart are leveraging their large in-store networks to fulfil online and click-and-collect orders at local stores; both remain an important component of the chains' overall sales. This integration of physical and digital shopping has strengthened the position of well-located necessity retail assets.

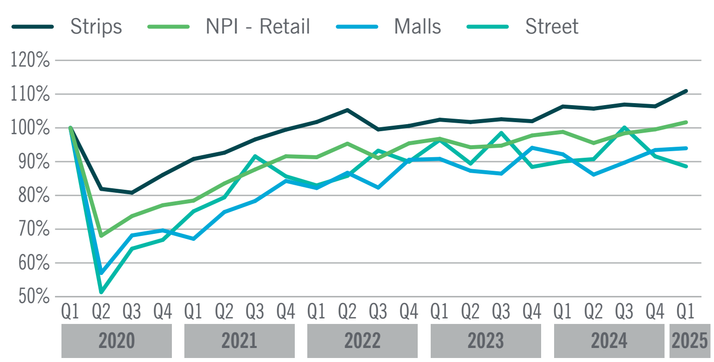
AROUND THE WORLD: MARKET STORIES THAT MATTER

America's retail resurgence

U.S. market fundamentals demonstrate particular strength, with new supply of neighborhood retail limited to just 0.2% of inventory between 2020-2024, and projections indicating further decline to less than 0.1% annually, according to CoStar. Leasing activity remains robust, with 279.4 million sq ft leased in 2024 and 71.7 million sq ft in the first quarter of 2025 alone, according to CoStar data (Figure 5). Occupier demand for open-air retail continues to outpace enclosed centers due to their convenience and lower operating cost structures compared with enclosed malls or high-profile lifestyle centers. Meanwhile, high occupancy rates in strip centers have helped support rents and net operating income (NOI) growth, resulting in income for real estate investors.

Figure 5: Annual U.S. retail NOI growth

(Index 100 = 1Q 2020)



Source: NCREIF data as of March 2025

Europe's quiet comeback

European markets show similar promise with minimal new supply and increased occupier demand. In terms of performance, the U.K. market led the way with shopping centers and retail warehouses outperforming the broader property sector by more than 300 bps in 2024, as recorded by MSCI. Investors are increasingly attracted to higher income yields that can be delivered for necessity-style retail formats considered as retail parks. Retail parks have delivered particularly strong and diversified income returns, averaging 6% over the past decade according to MSCI data. (Figure 6 and 7).

Asia Pacific's bottoming out

Asia Pacific exhibits similar constrained new supply. The resurgence of tourism in the region has improved vacancy rates in prime retail districts. However, this recovery may be overshadowed by slowing economic growth, in contrast, grocery anchored neighborhood shopping centers demonstrated greater resilience, as grocery tenants are less vulnerable to economic fluctuations. The long weighted average lease expiry and tenant stability in this asset class provide investors with steady income returns.

East coast cities in Australia, such as Sydney, Melbourne and Brisbane, present appealing investment opportunity for these assets, with yields ranging between 6% and 7%. Australia's strong population growth further supports sustained retail consumption over the long term. (Figure 8)

Figure 6: European retail parks deliver excellent income return:

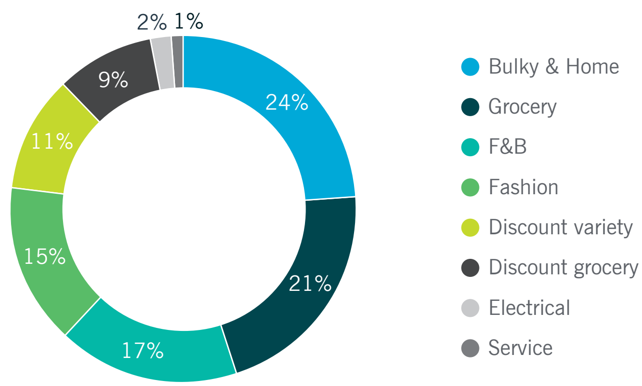
MSCI real estate historic 10-year performance

Asset type	Income return	Vacancy rate*
Retail parks	6.00%	4.30%
All retail	5.10%	5.30%
Offices	4.10%	13.10%
Industrial	5.20%	6.40%

Source: MSCI as of 2024
*Vacancy rate applies to the U.K. market

Figure 7: Diversified income: European retail park floorspace (% by sector)

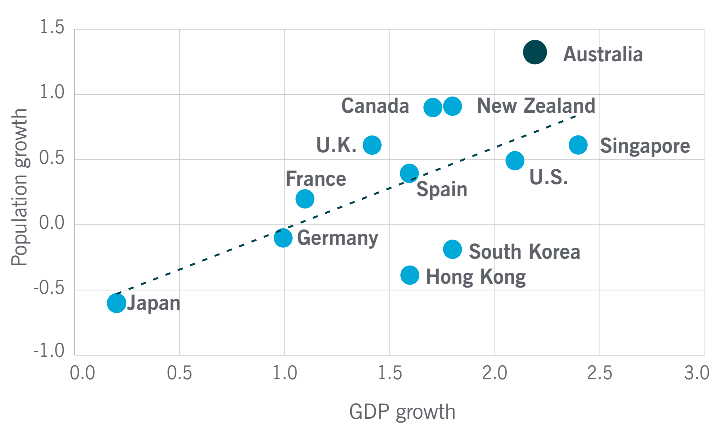
MSCI real estate historic 10-year performance



Source: Source: Nuveen Real Estate Research, as of March 2025

Figure 8: Australia's projected long-term population growth supports consumption

Annualised GDP and population growth (2023 – 2033)



Source: Oxford Economics, as of June 2025

SMART MONEY: WHERE INVESTORS ARE FINDING VALUE

Current market conditions present attractive entry points for investors, with pricing adjustments creating compelling value propositions. Strong yield spreads versus other sectors, combined with defensive income characteristics, make necessity retail an increasingly attractive component of diversified real estate portfolios. However, investors must carefully consider market-specific regulatory environments, interest rate sensitivity, tenant credit quality and growing environmental, social and governance compliance requirements.

Looking ahead, Nuveen Real Estate maintains a positive outlook for necessity retail assets. This conviction is grounded in sustained consumer demand for essential goods and services, limited new supply pipeline, growing retailer expansion plans in suburban markets and attractive risk-adjusted return potential. The sector's demonstrated resilience through economic cycles, combined with its ability to adapt to changing consumer preferences, positions it well for continued strong performance.

NECESSITY RETAIL IS HERE TO STAY

As the retail landscape continues to evolve, necessity retail assets that emphasize convenience, essential services and community connection will likely continue to outperform. These properties represent not just retail locations, but critical infrastructure serving the daily needs of their surrounding communities — a characteristic that underpins their enduring value proposition for institutional investors.

For more information, please visit us at nuveen.com/realestate

Sources

1 NCREIF Property Index (2025)
2 Savills (March 2025)
3 CoStar Market Data (April 2025)
4 Amazon Annual Report (June 2025)
5 MSCI European Index (2024)
6 Nuveen Real Estate Research (March 2025)
7 Oxford Economics Reports (May 2025)
8 PMA Market data (March 2025)

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