

U.S. retail in the age of convenience culture

Beyond the headlines: Retail's revival

The necessity retail sector continues to demonstrate resilience in today's dynamic U.S. market environment. Assets anchored by grocery, discount retail, health and wellness, and essential services seem to have maintained strong performance despite shifting consumer preferences and economic headwinds. This resurgence is particularly evident in growing suburban 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:

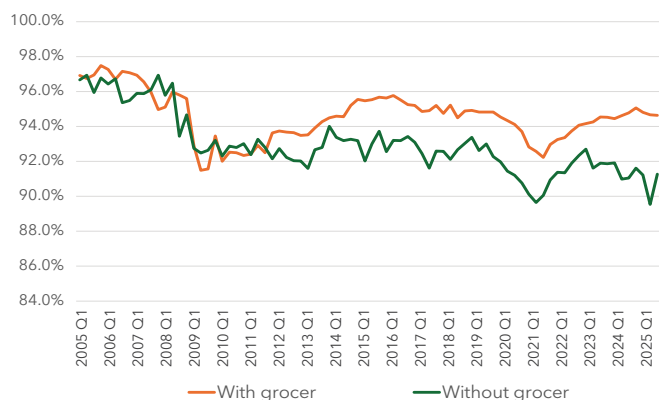
- Strategic locations in areas with favorable demographic trends
- An ability to attract and retain best-in-class tenants
- Demonstrated sustainable traffic patterns resulting from market dominance within their respective trade areas

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 vacant space with in-demand retailers.

Evolution of U.S. 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 United States, 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).

Figure 1: Strip center occupancy



Source: NCREIF Retail Property Index, as of June 2025

Minimal supply risk

The decline in investor interest in the retail sector has led to a significant reduction in new retail developments across the United States. 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 shopping centers located in large residential catchment areas. Retailers increasingly prioritize these high-performing properties due to their ability to attract consistent foot traffic.

U.S. market fundamentals demonstrate particular strength, with new supply of neighborhood retail limited to just 0.2 percent of inventory between 2020 and 2024, and projections indicating further decline to less than 0.1 percent annually, according to CoStar.

Digital integration reshapes physical retail

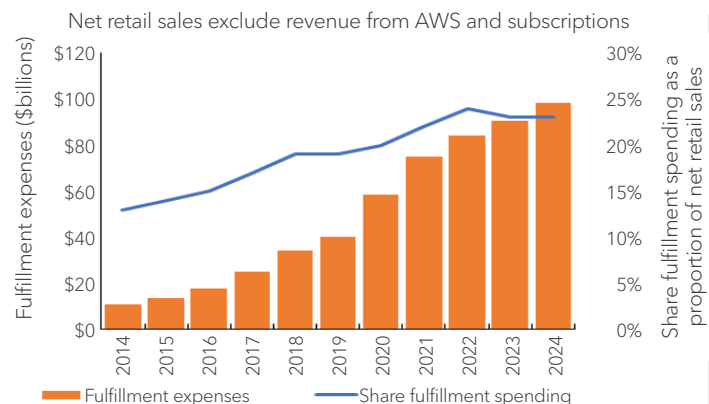
The ecommerce narrative has evolved significantly from its initial perception as a threat to physical retail. Today, rising fulfillment costs as demonstrated by Amazon will impact retailer profitability, and in-store fulfillment has become a cost-effective method of distribution (Figure 2). Digital commerce now serves as a complementary channel that enhances brick-and-mortar operations.

In the United States, retailers such as Target and Walmart are leveraging their large in-store networks to fulfill 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.

America's retail resurgence

Leasing activity remains robust across the United States, with 279.4 million square feet leased in 2024 and 142.6 million square feet in the first half of 2025, according to CoStar data.

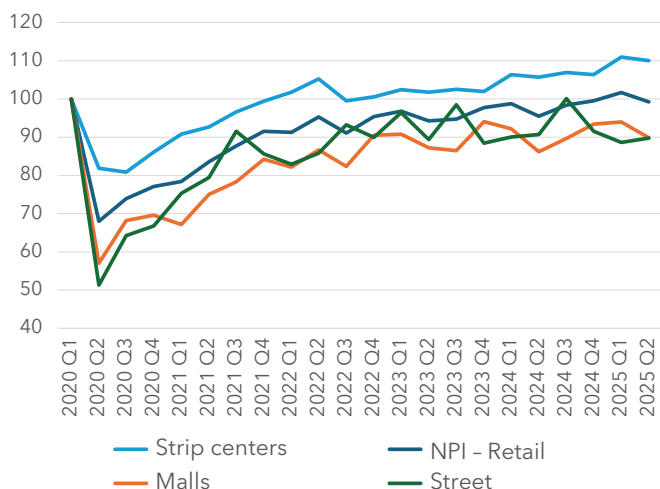
Figure 2: Amazon's global fulfillment costs as a percentage of net retail sales



Source: Amazon Annual Reports, as of June 2025

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 3).

Figure 3: Annual U.S. retail NOI growth, January 2020 = 100



Source: NCREIF Retail Property Index, as of June 2025

Smart money: Where investors are finding value

Current market conditions present attractive entry points for investors in U.S. necessity retail, 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. Investors, however, 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 U.S. 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 in the U.S. market. 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.

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Source: Nuveen, March 31, 2025