

6/13/2024

# MARKET COMMENTARY

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To Our Valued Clients,

Many commercial real estate investors have been waiting for the proverbial shoe to drop for the better part of the last five years, particularly in the office sector. An environment of higher interest rates and lower occupancy rates has presented significant headwinds for property owners, especially those in larger metropolitan areas where we've already seen significant decreases in commercial valuations. However, for all the doom and gloom surrounding much of the market, a corner of the retail sector has emerged as an area of strength recently, restaurants.

Historically, restaurants have been viewed as risky tenants for property owners because it is an industry rife with failure. This notion has been challenged as of late, however, as consumers are dining out at some of the highest rates on record. A strong job market, rising incomes, and shifting family demographics have all played a hand in Americans spending less time in the kitchen and more time eating away from home. Grocery retail sales data certainly affirms this point, as of the end of Q1 spending at grocery stores had risen about 5% from two years ago while restaurant spending grew over 20% during the same span<sup>1</sup>. This is in stark contrast to the pandemic where, much to no fault of their own, restaurants were shutting down by the thousands. Continued momentum in the sector resulted in 19% of all retail leases signed in 2023 being accounted for by food service businesses<sup>2</sup>, another record-breaking figure and a much-needed bright spot in the commercial landscape. Some argue that higher menu prices have simply boosted the sales numbers, a stance that I certainly agree with, to a point. As of Q1, the price for food away from home had risen a little over 12% during the past two years versus an increase in total restaurant spending of over 20%<sup>3</sup>.

Restaurants are sometimes referred to as a weathervane for the U.S. economy, and with revenues in the industry on pace to top \$1.1T in 2024<sup>4</sup>, they are certainly indicating that the economic winds are blowing in the right direction. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

*Brandon Hethcoat*

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<sup>1</sup> U.S. Census Bureau

<sup>2</sup> CoStar Group

<sup>3</sup> U.S. Census Bureau

<sup>4</sup> National Restaurant Association

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