

RETAIL OVERVIEW: RETAIL DEMAND STAGES A COMEBACK

Retail real estate is staging a notable comeback in 2021 bolstered by enormous government subsidies to consumers who largely are getting vaccinated. While there was a sharp increase in e-commerce in 2020, this year has been brick-and-mortar's turn. Merchants expanded their real estate footprints again in the third quarter by 28.6 million SF. This follows 20.2 million SF of positive net absorption in the second quarter and 4.5 million SF in Q1, and brings overall year-to-date growth to 53.3 million SF, 52% more than for all of 2019.

The strongest growth has come in the last two quarters as vaccines became widely available, allowing workers to return to offices and benefiting bars, restaurants and apparel stores. Earning reports show rebounding same-store sales.

In addition to the injection of more than a trillion dollars into consumers' wallets, reopening of the economy and easing restrictions on operations also helped slow the pace of store closure announcements and bankruptcies, which are on pace to impact the least amount of space since 2016.

Many retailers are expanding into new locations with grocery, discount, home décor and beauty sectors as the most active. At the same time, the average-sized footprint continues to lessen as several merchants, such as Target, Macy's and Burlington, are focusing on operating leaner, smaller formatted stores. Retailers' expansion plans continue to focus on faster-growing metros in the South and West, where absorption and leasing activity is greatest.

It's no surprise that the demand is driving up lease rates. The higher population growth markets such as Nashville, Atlanta, Tampa, Las Vegas, Charlotte, Phoenix and Orlando have seen rents increase by 2.5% or more in the past year while rents are abating in markets such as New York, Boston, Northern New Jersey and Los Angeles.

Demand for space in neighborhood centers and stand-alone single-tenant properties has accounted for more than 90% of the net absorption total this year. Tenants in the general retail space, the largest retail category with a 6.2-billion-SF base, expanded by 13.9 million SF in the third quarter bringing the year-to-date total to 32.3 million SF. Neighborhood retail with a 2.97-billion-SF inventory reported 10.9 million SF in third-quarter net absorption, bringing the total growth for the year to 17.3 million SF.

Absorption this year in the 907-million-SF mall category see-sawed. There was 3.6 million SF of negative net absorption in Q1, 425,234 SF of growth in Q2 and negative 229,641 SF in Q3. After posting negative 1.5 million SF of negative absorption in Q1, demand turnaround in the nation's 804 million SF in power centers, which reported 784,189 SF of Q2 growth and 789,914 SF in Q3. Retail investment activity reached its highest level since early 2018, totaling more than \$25 billion. Grocery-anchored properties are favored for their overall lower sensitivity to e-commerce disruption and focus on essential retail categories.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
VC, Vancouver	1.1%	NY, New York *	\$44.53	BC, Vancouver	\$510
ON, Toronto	1.7%	FL, Miami	\$39.04	NY, New York *	\$412
WA, Seattle	2.7%	CA, Orange County	\$33.75	CA, Orange County	\$394
MA, Boston	2.8%	CA, Los Angeles	\$33.19	CA, Los Angeles	\$390
NC, Durham	3.2%	NY, Long Island	\$31.90	FL, Miami	\$384
U.S. Index	4.8%	U.S. Index	\$22.26 PSF	U.S. Index	\$220 PSF
Canada Index	2.2%	Canada Index	\$21.98 PSF	Canada Index	\$325 PSF

MOST SF UNDER CONSTRUCTION		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
FL, Miami	3,814,062	NY, New York *	615,252,201	BC, Vancouver	4.3%
TX, Houston	3,455,121	IL, Chicago	576,344,153	ON, Toronto	4.9%
ON, Toronto	3,453,424	TX, Dallas-Fort Worth	447,623,104	CA, Orange County	5.2%
NY, New York *	3,114,742	CA, Los Angeles	447,442,644	CA, Los Angeles	5.4%
TX, Dallas-Fort Worth	3,110,365	TX, Houston	415,850,022	CA, East Bay	5.4%
U.S. Index	48,834,167 SF	U.S. Index	11,722,590,309 SF	U.S. Index	7.0%
Canada Index	6,880,750 SF	Canada Index	742,906,202 SF	Canada Index	5.3%

* Please note that the statistics represented in these tables are based on CoStar defined market territories and may not all represent the geographic area the label depicts.

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
AZ, Phoenix	7.0%	\$20.04	\$207	778,341	235,333,970	6.9%
BC, Vancouver	1.1%	\$25.32	\$510	842,139	123,301,824	4.3%
CA, East Bay	5.2%	\$30.87	\$328	284,278	124,237,833	5.4%
CA, Inland Empire	7.2%	\$23.38	\$254	1,429,755	198,008,264	6.2%
CA, Los Angeles	5.2%	\$33.19	\$390	1,635,492	447,442,644	5.4%
CA, Orange County	4.4%	\$33.75	\$394	134,382	144,314,497	5.2%
CA, San Diego	5.1%	\$30.83	\$347	558,208	139,075,187	5.6%
CA, San Luis Obispo	3.9%	\$24.99	\$271	217,551	15,266,372	6.1%
CA, Santa Barbara	4.7%	\$27.55	\$353	47,900	25,173,165	6.0%
CA, Stockton	3.5%	\$19.36	\$180	30,166	30,996,101	7.1%
CA, Ventura	5.7%	\$25.71	\$278	69,244	41,240,015	6.0%
CO, Denver	5.0%	\$23.48	\$232	1,055,389	159,576,917	6.6%
DC, Washington	4.9%	\$29.42	\$313	1,747,999	265,508,086	6.4%
FL, Fort Myers	4.1%	\$18.30	\$198	249,225	48,433,083	6.8%
FL, Miami	3.7%	\$39.04	\$384	3,814,062	137,739,446	5.6%
FL, Naples	5.2%	\$24.49	\$269	105,787	23,599,963	5.9%
FL, Orlando	4.1%	\$23.74	\$209	1,028,174	149,072,159	7.1%
GA, Atlanta	4.8%	\$19.08	\$181	2,036,671	363,920,586	7.2%
ID, Boise	3.8%	\$15.12	\$200	115,077	41,936,905	6.5%
IL, Chicago	6.0%	\$19.48	\$178	939,428	576,344,153	7.5%
IN, Indianapolis	4.5%	\$16.79	\$140	328,779	129,785,460	8.2%
MA, Boston	2.8%	\$23.77	\$234	718,295	242,452,009	6.5%
MD, Baltimore	5.7%	\$22.36	\$187	291,683	143,633,450	7.3%
MI, Detroit	5.3%	\$16.86	\$119	645,739	261,358,754	8.0%
MN, Minneapolis	3.3%	\$17.37	\$160	404,208	202,744,823	7.4%
MO, Saint Louis	4.8%	\$15.09	\$139	242,035	174,035,511	8.1%
NC, Durham	3.2%	\$20.32	\$217	329,764	27,261,194	8.4%
NC, Raleigh	3.2%	\$21.83	\$208	569,799	74,820,649	7.0%
NJ, Atlantic City	5.6%	\$15.38	\$129	98,216	17,857,436	8.0%
NJ, Northern New Jersey *	4.7%	\$23.05	\$195	411,144	133,455,760	7.2%
NJ, Trenton	4.9%	\$19.93	\$189	52,309	21,506,656	8.0%
United States Index	4.8%	\$22.26	\$220	48,834,167	11,722,590,309	7.0%
Canada Index	2.2%	\$21.98	\$325	6,880,750	742,906,202	5.3%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
NJ, Vineland	5.4%	\$13.52	\$160	0	8,079,144	7.0%
NV, Reno	5.7%	\$19.64	\$192	252,562	26,397,637	7.3%
NY, Long Island	4.5%	\$31.90	\$286	829,852	154,306,410	6.6%
NY, New York *	4.2%	\$44.53	\$412	3,114,742	615,252,201	6.1%
OH, Cincinnati	4.4%	\$13.92	\$111	144,211	133,106,722	8.4%
OH, Cleveland	4.8%	\$13.83	\$103	166,014	144,976,982	8.4%
OH, Columbus	3.6%	\$16.73	\$135	491,887	121,718,930	8.2%
ON, Toronto	1.7%	\$24.97	\$353	3,453,424	296,393,797	4.9%
PA, Harrisburg	6.2%	\$15.59	\$125	181,243	33,958,930	7.8%
PA, Lehigh Valley *	5.4%	\$15.11	\$122	104,432	48,383,745	9.2%
PA, Philadelphia *	5.0%	\$21.06	\$175	598,964	335,895,343	7.3%
SC, Charleston	4.7%	\$20.98	\$216	211,123	47,366,179	6.9%
SC, Greenville	4.1%	\$14.77	\$143	240,247	62,957,533	7.3%
SC, Spartanburg	5.4%	\$11.82	\$107	32,888	25,876,634	8.8%
TN, Nashville	4.0%	\$24.60	\$218	314,673	117,805,524	6.5%
TX, Dallas-Fort Worth	5.6%	\$20.31	\$235	3,110,365	447,623,104	6.6%
TX, Houston	5.6%	\$21.02	\$222	3,455,121	415,850,022	7.0%
WA, Seattle	2.7%	\$27.62	\$303	1,277,877	181,465,506	6.0%
WI, Madison	3.5%	\$15.72	\$137	192,621	40,361,495	7.6%
United States Index	4.8%	\$22.26	\$220	48,834,167	11,722,590,309	7.0%
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