

RETAIL OVERVIEW: BRICK-AND-MORTAR GAINS ON E-COMMERCE

In-person shopping is regaining its popularity and it's taking a toll on e-commerce. Merchant demand for retail space in the United States is the most since 2017 with net absorption on track to expand by nearly 80 million SF in 2022. The overall vacancy rate has fallen 60 basis points over the last two quarters, settling at 4.4%, the lowest on record.

Canadian demand for retail space also strengthened in the first half of 2022. The 3.8 million SF of net absorption through Q2 equals total demand for 2020 and is on pace to match the average annual growth of the previous five years. The tightest markets are Vancouver and Toronto, whose vacancy rates are 1.2% and 1.7% respectively. The two metros also have the nation's highest rents.

Leading the forces behind tenant growth is a financially healthy and active consumer. Last year in-person shopping gained ground on e-commerce, possibly a first. An analysis by Mastercard says U.S. online purchases fell in March for the first time in a decade, adding more support to the view that online shopping has hit a wall, at least for now. The ripple effects are punishing the tech industry now to a similar degree that it was rewarded when the lockdown caused consumers to race ahead in their embrace of online shopping.

After its online sales declined 3% in the first quarter to \$51.1 billion, Amazon said it would begin to reduce excess industrial space in its distribution network. Amazon wasn't alone. Facebook reports sagging ad sales. Etsy and Shopify also posted unexpectedly low sales growth and have reduced expectations. Reduced online trade has reduced the pressure on retail landlords. Rent growth is averaging 4%, the most in more than a decade in the U.S., and 3.4% in Canada, the most since 2017. Strip and neighborhood centers posted the strongest first half rent growth at 4.7%.

U.S. markets capturing an outsized portion of population and job growth have seen rents increase substantially. Metros reporting the biggest increases over the last 12 months include: Nashville, 10.3%; Salt Lake City and Charlotte, N.C., at 9.4%; Las Vegas, 9.3%; Tampa, 7.3%; Orlando, 7.2% and Raleigh, 7.1%. Overall net absorption for U.S. space in the first half totaled 39,224,344, a 59% gain over the same period last year. Retailers announced nearly seven times as many store openings as closings. Mall space is reporting positive net absorption of 2 million SF at the end of the first half. That follows four straight years of losses totaling more than 19 million SF. Tenant growth in power centers at the end of Q2 totaled 4.3 million SF, double the total for 2020.

More than \$23 billion in property traded hands in the first quarter, the most ever. Investors target the general retail segment, which chiefly are stand-alone buildings that make up 53% of retail space. These buildings typically are occupied by banks, car dealers, bars, bowling alleys and convenience stores.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
BC, Vancouver	1.2%	NY, New York	\$45.12	CA, San Francisco	\$622
ON, Toronto	1.7%	FL, Miami	\$42.84	BC, Vancouver	\$536
WA, Seattle	2.7%	CA, San Francisco	\$42.60	NY, New York	\$425
MA, Boston	2.7%	CA, Orange County	\$34.92	CA, Orange County	\$423
NC, Raleigh	2.7%	CA, Los Angeles	\$34.80	FL, Miami	\$422
U.S. Index	4.4%	U.S. Index	\$23.28 PSF	U.S. Index	\$237 PSF
Canada Index	2.0%	Canada Index	\$22.08 PSF	Canada Index	\$351 PSF

MOST SF UNDER CONSTRUCTION		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
TX, Houston	4,421,150	NY, New York	621,833,601	BC, Vancouver	4.1%
FL, Miami	3,477,926	IL, Chicago	583,666,919	CA, San Francisco	4.5%
NY, New York	3,163,426	TX, Dallas, Fort Worth	452,468,077	ON, Toronto	4.6%
TX, Dallas-Fort Worth	3,078,690	CA, Los Angeles	444,983,975	CA, Orange County	5.1%
DC, Washington	2,374,894	TX, Houston	425,584,273	CA, Los Angeles	5.3%
U.S. Index	60,048,257 SF	U.S. Index	11,811,304,394 SF	U.S. Index	6.8%
Canada Index	5,766,654 SF	Canada Index	754,987,631 SF	Canada Index	5.0%

* 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	6.0%	\$1.79	\$225	1,588,272	236,920,321	6.7%
BC, Vancouver	1.2%	\$2.21	\$536	981,631	124,622,940	4.1%
CA, East Bay	5.2%	\$2.72	\$349	183,754	124,076,927	5.3%
CA, Inland Empire	6.2%	\$2.06	\$282	1,808,901	198,521,327	5.9%
CA, Los Angeles	5.2%	\$2.90	\$413	1,585,708	444,983,975	5.3%
CA, Orange County	4.3%	\$2.91	\$423	110,642	144,655,738	5.1%
CA, San Diego	4.4%	\$2.73	\$381	489,425	138,780,019	5.4%
CA, San Francisco	5.2%	\$3.55	\$622	591,545	82,639,769	4.5%
CA, San Luis Obispo	3.8%	\$2.16	\$281	225,752	15,411,002	6.1%
CA, Santa Barbara	4.0%	\$2.35	\$369	0	25,026,732	5.9%
CA, Stockton	3.2%	\$1.68	\$198	219,586	30,848,975	6.8%
CA, Ventura	5.4%	\$2.19	\$291	41,671	41,395,703	5.9%
CO, Denver	4.6%	\$2.03	\$260	644,781	158,148,978	6.2%
DC, Washington	5.1%	\$2.55	\$331	2,374,894	267,591,226	6.2%
FL, Fort Myers	3.4%	\$1.62	\$218	300,146	48,678,989	6.6%
FL, Miami	3.2%	\$3.57	\$422	3,477,926	139,446,409	5.4%
FL, Naples	4.1%	\$2.17	\$291	95,345	23,906,176	5.8%
FL, Orlando	3.6%	\$2.13	\$236	2,193,827	151,424,607	6.6%
GA, Atlanta	4.0%	\$1.66	\$195	1,968,820	367,327,875	7.1%
GA, Savannah	3.9%	\$1.79	\$200	83,750	27,821,529	7.4%
ID, Boise	3.4%	\$1.32	\$210	315,241	41,737,132	6.5%
IL, Chicago	5.8%	\$1.69	\$189	1,309,962	583,666,919	7.4%
IN, Indianapolis	3.6%	\$1.48	\$150	340,962	131,348,624	7.9%
MA, Boston	2.7%	\$2.13	\$258	714,880	245,840,224	6.2%
MD, Baltimore	5.5%	\$1.90	\$201	389,730	143,803,295	7.0%
MI, Detroit	5.2%	\$1.48	\$127	620,152	259,606,419	7.8%
MN, Minneapolis	3.1%	\$1.51	\$169	526,824	203,254,149	7.2%
MO, Saint Louis	5.9%	\$1.28	\$142	621,618	174,693,136	8.1%
NC, Durham	3.0%	\$1.78	\$231	411,920	27,660,500	8.2%
NC, Raleigh	2.7%	\$1.97	\$227	1,249,655	77,221,925	6.7%
NE, Omaha	5.2%	\$1.23	\$146	267,137	63,841,188	7.6%
United States Index	4.4%	\$1.94	\$237	60,048,257	11,811,304,394	6.8%
Canada Index	2.0%	\$1.84	\$351	5,766,654	754,987,631	5.0%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
NJ, Atlantic City	4.8%	\$1.34	\$145	27,835	17,674,854	7.6%
NJ, Northern New Jersey *	4.6%	\$1.89	\$207	940,856	134,767,817	7.0%
NJ, Trenton	4.2%	\$1.72	\$192	117,200	21,520,474	7.9%
NJ, Vineland	5.8%	\$1.17	\$180	0	8,217,791	6.7%
NV, Reno	5.9%	\$1.68	\$203	87,496	26,947,721	7.2%
NY, Long Island	4.7%	\$2.79	\$314	452,855	156,245,466	6.3%
NY, New York *	4.0%	\$3.76	\$425	3,163,426	621,833,601	6.0%
OH, Cincinnati	6.2%	\$1.16	\$116	114,601	133,014,875	8.2%
OH, Cleveland	4.6%	\$1.21	\$111	301,308	146,321,413	8.1%
OH, Columbus	3.9%	\$1.46	\$148	688,599	122,003,741	7.9%
ON, Toronto	1.7%	\$2.11	\$407	1,293,773	300,576,616	4.6%
PA, Harrisburg	6.0%	\$1.35	\$132	209,255	34,489,810	7.6%
PA, Lehigh Valley *	4.8%	\$1.32	\$126	155,945	49,023,528	9.1%
PA, Philadelphia *	4.6%	\$1.73	\$184	920,937	334,757,615	7.1%
SC, Charleston	3.6%	\$1.86	\$240	481,899	47,682,325	6.6%
SC, Greenville	3.8%	\$1.26	\$149	189,741	63,202,807	7.2%
SC, Spartanburg	4.7%	\$1.05	\$113	62,346	26,552,389	8.6%
TN, Nashville	3.6%	\$2.22	\$245	1,212,730	118,830,357	6.2%
TX, Dallas-Fort Worth	4.8%	\$1.79	\$253	3,078,690	452,468,077	6.4%
TX, Houston	5.1%	\$1.81	\$231	4,421,150	425,584,273	6.9%
WA, Seattle	2.7%	\$2.31	\$320	132,314	180,797,823	5.9%
WI, Madison	3.0%	\$1.36	\$149	290,825	40,598,503	7.3%
United States Index	4.4%	\$1.94	\$237	60,048,257	11,811,304,394	6.8%
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