

RETAIL OVERVIEW: SHOPPERS RETURN TO BRICK-AND-MORTAR

North American retail real estate is emerging from the pandemic with unexpected strength as footfalls increase and consumers continue to spend at a healthy clip despite rising interest rates and inflation. The overall 4.3% vacancy rate in the United States is the lowest in 15 years and Canada's 2% vacancy rate is the lowest since 2014, as the retail industry is turning around from years of adjustments for bankruptcies, empty storefronts and unloved enclosed mall space. The transformation has been made possible by painful reinventions by investors willing to spend on facelifts and renovations. Other key factors aiding the recovery include substantially slowing new construction, e-commerce merchants expanding their physical presence and consumers less fearful of Covid who hunger to browse in shops and try on clothes. For the first time since 1995 merchants opened more stores than were shuttered.

In the U.S., brick-and-mortar retail sales pushed to a new record of \$382 billion in August, an increase of nearly 25% over pre-Covid levels. With sales booming, retail leasing activity has bounced back. There was more than 14.8 million SF net absorption in the third quarter, bringing the total for the year to 54 million SF, roughly equal to the first three quarters of 2021.

Rent growth through Q3 this year is at 4.2%, compared to the 2.5% annual average from 2013 through 2019. Average triple net asking rents hit a record \$23 per SF, up 4.2% in the past year and the biggest jump in more than a decade.

Despite rising demand for space, neither developers nor banks show interest in large speculative retail projects. Projects under construction are chiefly freestanding general retail properties that are pre-leased to qualified tenants. Only 18.2 million SF of space have been added to inventory year to date, slightly less than for the same period last year. Construction starts hit a 15-year low of about 8 million SF in the second quarter.

Most new retail development is driven by tenant expansion in the nation's fastest growing regions of the South and Southwest. Four of the top 10 metros with the most new inventory are in Florida (Orlando, Miami, Fort Lauderdale and Tampa) and four are in Texas (Houston, San Antonio, Austin and Dallas).

The improvement in the retail property sector has not gone unnoticed by investors. They've been most attracted to single-tenant net lease assets and neighborhood shopping centers in large gateway markets such as New York, Los Angeles and Chicago and high-growth metros that include Dallas, Atlanta, Phoenix and Houston. In Canada, net absorption also has outpaced deliveries of new product. Nationwide there has been 4 million SF of net absorption year to date with 1.7 million SF of tenant growth coming in Q3. Year-to-date inventory growth totals 2.1 million SF. Toronto is the largest market with 300 million SF or 38% of total inventory, but Calgary leads in new construction with 2.8 million SF underway followed by Toronto's 1.8 million SF and 1.7 million SF in Vancouver, which tops the nation with the highest average rents at \$2.09 per SF.

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	\$608
ON, Toronto	1.6%	FL, Miami	\$44.28	BC, Vancouver	\$505
WA, Seattle	2.7%	CA, San Francisco	\$41.88	CA, Orange County	\$439
MA, Boston	2.7%	CA, Orange County	\$36.00	NY, New York*	\$424
FL, Miami	3.2%	CA, Los Angeles	\$35.04	FL, Miami	\$424
U.S. Index	4.3%	U.S. Index	\$23.40 PSF	U.S. Index	\$239 PSF
Canada Index	2.0%	Canada Index	\$20.64 PSF	Canada Index	\$327 PSF

MOST SF UNDER CONSTRUCTION		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
TX, Houston	4,527,218	NY, New York*	621,967,224	BC, Vancouver	4.1%
TX, Dallas-Fort Worth	3,309,783	IL, Chicago	582,537,843	ON, Toronto	4.5%
FL, Miami	3,279,591	TX, Dallas, Fort Worth	454,960,021	CA, San Francisco	4.5%
NY, New York*	2,827,176	CA, Los Angeles	445,752,213	CA, Orange County	5.0%
AZ, Phoenix	2,215,603	TX, Houston	422,945,993	CA, Los Angeles	5.3%
U.S. Index	61,035,201 SF	U.S. Index	11,822,181,995 SF	U.S. Index	6.8%
Canada Index	8,299,082 SF	Canada Index	783,875,794 SF	Canada Index	5.1%

* 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	5.6%	\$1.84	\$231	2,215,603	237,172,349	6.6%
BC, Vancouver	1.2%	\$2.09	\$505	1,691,477	123,887,078	4.1%
CA, East Bay	5.3%	\$2.75	\$353	183,501	124,269,476	5.3%
CA, Inland Empire	6.1%	\$2.06	\$284	1,657,600	199,006,426	5.9%
CA, Los Angeles	4.9%	\$2.92	\$419	1,244,616	445,752,213	5.3%
CA, Orange County	4.0%	\$3.00	\$439	159,138	144,092,429	5.0%
CA, San Diego	4.2%	\$2.71	\$388	528,165	138,583,926	5.4%
CA, San Francisco	5.4%	\$3.49	\$608	279,045	82,615,711	4.5%
CA, San Luis Obispo	3.8%	\$2.16	\$285	252,494	15,406,062	6.1%
CA, Santa Barbara	4.4%	\$2.41	\$365	7,500	25,045,735	5.9%
CA, Stockton	3.5%	\$1.70	\$202	226,086	30,875,756	6.7%
CA, Ventura	5.3%	\$2.23	\$300	18,678	41,554,019	5.8%
CO, Denver	4.5%	\$2.05	\$266	611,833	158,663,869	6.2%
DC, Washington	5.1%	\$2.59	\$341	1,542,365	267,032,362	6.0%
FL, Fort Myers	3.3%	\$1.65	\$221	345,296	48,748,945	6.5%
FL, Miami	3.2%	\$3.69	\$424	3,279,591	140,278,550	5.4%
FL, Naples	4.0%	\$2.22	\$306	113,128	23,929,248	5.6%
FL, Orlando	3.7%	\$2.16	\$246	2,023,668	151,641,179	6.5%
GA, Atlanta	3.9%	\$1.71	\$201	1,759,483	368,140,602	6.9%
GA, Savannah	3.2%	\$1.83	\$207	63,322	27,971,450	7.4%
ID, Boise	3.6%	\$1.34	\$217	682,454	41,903,378	6.3%
IL, Chicago	5.8%	\$1.70	\$192	1,201,887	582,537,843	7.3%
IN, Indianapolis	3.3%	\$1.48	\$152	269,865	132,115,054	7.8%
MA, Boston	2.7%	\$2.19	\$265	1,132,974	246,226,566	6.1%
MD, Baltimore	5.6%	\$1.91	\$211	339,929	143,890,198	6.9%
MI, Detroit	5.1%	\$1.48	\$133	735,283	260,475,844	7.6%
MN, Minneapolis	3.4%	\$1.51	\$169	449,139	203,828,937	7.2%
MO, Saint Louis	5.7%	\$1.29	\$141	614,306	174,832,882	8.1%
NC, Durham	2.4%	\$1.83	\$237	457,330	27,671,694	8.0%
NC, Raleigh	2.6%	\$2.00	\$236	1,284,171	77,227,761	6.5%
NE, Omaha	5.0%	\$1.26	\$145	310,936	64,292,209	7.6%
United States Index	4.3%	\$1.95	\$239	61,035,201	11,822,181,995	6.8%
Canada Index	2.0%	\$1.72	\$327	8,299,082	783,875,794	5.1%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
NJ, Atlantic City	4.6%	\$1.37	\$154	27,835	17,766,803	7.4%
NJ, Northern New Jersey *	4.5%	\$1.88	\$207	956,992	135,074,740	7.0%
NJ, Trenton	5.7%	\$1.73	\$185	121,600	21,605,994	8.0%
NJ, Vineland	6.1%	\$1.18	\$181	0	8,222,854	6.7%
NV, Reno	5.0%	\$1.71	\$205	33,796	26,976,019	7.1%
NY, Long Island	4.5%	\$2.79	\$329	948,485	155,873,831	6.2%
NY, New York *	4.1%	\$3.76	\$424	2,827,176	621,967,224	6.0%
OH, Cincinnati	6.4%	\$1.16	\$118	331,708	132,506,666	8.2%
OH, Cleveland	4.5%	\$1.20	\$111	215,661	146,805,205	8.1%
OH, Columbus	4.0%	\$1.51	\$153	892,906	122,008,674	7.8%
ON, Toronto	1.6%	\$1.99	\$380	1,811,412	300,055,051	4.5%
PA, Harrisburg	5.5%	\$1.36	\$133	166,778	34,742,595	7.7%
PA, Lehigh Valley *	5.2%	\$1.32	\$131	82,900	49,143,339	8.9%
PA, Philadelphia *	4.5%	\$1.70	\$185	1,213,070	335,178,987	7.1%
SC, Charleston	3.5%	\$1.90	\$248	578,084	48,454,992	6.4%
SC, Greenville	3.5%	\$1.35	\$157	212,025	63,194,755	7.1%
SC, Spartanburg	4.5%	\$1.06	\$116	67,346	26,565,995	8.5%
TN, Nashville	3.5%	\$2.24	\$250	1,156,692	119,688,075	6.1%
TX, Dallas-Fort Worth	4.8%	\$1.81	\$258	3,309,783	454,960,021	6.4%
TX, Houston	5.0%	\$1.84	\$241	4,527,218	422,945,993	6.8%
WA, Seattle	2.7%	\$2.32	\$325	187,260	179,357,844	5.8%
WI, Madison	2.7%	\$1.38	\$150	206,720	40,619,218	7.3%
United States Index	4.3%	\$1.95	\$239	61,035,201	11,822,181,995	6.8%
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