

RETAIL OVERVIEW: RETAIL'S LATEST CHALLENGE: SATISFYING PENT-UP DEMAND

Retail property is showing its overall resilience across North America with fundamentals so tight that the sector's biggest challenge lately is satisfying pent-up demand.

The second quarter was the ninth straight quarter of positive net absorption in the U.S. Leasing activity has been declining lately, however. This year's 18.2 million SF of net absorption through June is the least since 2020, the first year of the pandemic. Otherwise, most retail landlords have enjoyed steady growth, and the sector's vacancy rate is at a record low 4.2%. Merchants and landlords say leasing activity is being affected by supply- and demand-side factors. Lack of available supply in desirable locations is holding back growth while concerns over rising costs and uncertain economic outlook for consumption are affecting demand.

Most leasing activity remains concentrated in smaller spaces, less than 3,000 SF, and is being driven by growth in store counts from quick-service restaurant brands such as Starbucks, Crumbl Cookies, Yum Brands and Restaurant Brands International, which owns BK, Tim Hortons, Popeyes and Firehouse Subs. T-Mobile and AT&T also have leased dozens of small shop spaces over the past year.

Demand for medium to larger space has been chiefly driven by discounters TJ Maxx, Burlington, Dollar Tree, Dollar General and its new concept PopShelf. Demand for spaces larger than 10,000 SF has come from fitness and experiential tenants, as consumers pivot back toward services in a post-pandemic environment. After accounting for between 8% to 10% of all retail leasing activity since 2015, experiential retailers total 15% of all retail activity for the past year with Planet Fitness and Urban Adventure topping the list.

While demand for space continues to rise, new retail development activity remains muted. A mere 51 million SF of new space was delivered in the past 12 months, which is 35% less than the pre-pandemic average. At the same time 21.5 million SF have been demolished over the past year. In the last five years 144 million SF have been razed. With concerns of over-supply still fresh in the minds of banks and developers, the majority of new space consists of build-to-suits and small freestanding buildings. Low supply and strong consumer spending have combined to drive nominal asking rents upward at their fastest clip in a decade. Average triple-net asking rents are up 3.5% and average \$24 per SF.

Canadian landlords are facing similar challenges to their American counterparts to "right-size" their retail properties in order to bring them into alignment with rapidly evolving consumer spending trends. Nevertheless, Canada's retail sector was still outperforming throughout the first half of 2023, driven in part by pent-up demand. The vacancy rate fell to a record low 1.8%. Every category has posted consistent growth except for mall properties, which posted negative absorption this year after two years of healthy expansion.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
BC, Vancouver	1.0%	NY, New York*	\$46.56	CA, San Francisco	\$613
ON, Toronto	1.6%	FL, Miami	\$43.80	BC, Vancouver	\$533 CAD
MA, Boston	2.6%	CA, Orange County	\$36.72	CA, Orange County	\$451
WA, Seattle	2.9%	CA, Los Angeles	\$35.64	NY, New York*	\$431
FL, Miami	3.0%	CA, San Diego	\$34.44	FL, Miami	\$431
U.S. Index	4.2%	U.S. Index	\$24.24	U.S. Index	\$245
Canada Index	1.8%	Canada Index	\$22.20 CAD	Canada Index	\$345 CAD

MOST SF UNDER CONSTRUCTION SF		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
TX, Dallas-Fort Worth	4,803,582	NY, New York*	632,457,883	BC, Vancouver	4.1%
TX, Houston	4,037,945	IL, Chicago	586,243,422	ON, Toronto	4.5%
ON, Toronto	3,553,482	TX, Dallas-Fort Worth	470,321,114	CA, San Francisco	4.5%
NY, New York*	3,213,846	CA, Los Angeles	450,399,225	CA, Orange County	5.0%
FL, Miami	2,575,628	TX, Houston	430,071,612	CA, Los Angeles	5.3%
U.S. Index	62,087,372	U.S. Index	11,948,768,267	U.S. Index	6.7%
Canada Index	8,742,061	Canada Index	809,296,923	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
AB, Calgary **	2.6%	\$1.72	\$291	1,918,549	78,198,955	5.8%
AZ, Phoenix	4.7%	\$1.98	\$245	2,153,200	240,846,138	6.5%
BC, Vancouver **	1.0%	\$2.12	\$533	950,614	126,722,635	4.1%
CA, Bakersfield	4.9%	\$1.59	\$214	155,382	33,754,496	6.5%
CA, East Bay	5.1%	\$2.65	\$341	258,108	124,586,162	5.4%
CA, Fresno	4.6%	\$1.54	\$195	81,655	49,062,042	6.9%
CA, Inland Empire	5.9%	\$2.13	\$297	1,455,774	201,314,849	5.8%
CA, Los Angeles	5.4%	\$2.97	\$423	1,798,224	450,399,225	5.3%
CA, Orange County	4.4%	\$3.06	\$451	112,478	143,703,555	5.0%
CA, San Diego	4.2%	\$2.87	\$407	515,989	138,742,516	5.3%
CA, San Francisco	5.5%	\$3.59	\$613	92,500	82,965,942	4.5%
CA, San Luis Obispo	3.0%	\$2.27	\$296	189,092	15,426,071	6.1%
CA, Santa Barbara	4.3%	\$2.46	\$346	0	25,087,330	6.0%
CA, Stockton	4.6%	\$1.76	\$218	104,643	31,104,341	6.5%
CA, Ventura	5.7%	\$2.33	\$310	29,171	42,785,248	5.8%
CO, Denver	4.1%	\$2.07	\$268	709,913	159,809,181	6.2%
DC, Washington	4.5%	\$2.62	\$344	1,375,606	266,740,151	6.1%
FL, Fort Myers	2.9%	\$1.71	\$231	171,258	49,025,240	6.4%
FL, Miami	3.0%	\$3.65	\$431	2,575,628	143,433,130	5.4%
FL, Naples	3.7%	\$2.30	\$330	70,199	24,009,532	5.5%
FL, Orlando	3.8%	\$2.32	\$266	2,066,809	154,162,151	6.3%
GA, Atlanta	3.7%	\$1.78	\$210	2,079,605	370,400,563	6.9%
GA, Savannah	3.6%	\$1.92	\$217	99,560	28,141,463	7.4%
ID, Boise	3.7%	\$1.41	\$220	573,105	42,540,668	6.3%
IL, Chicago	5.1%	\$1.75	\$195	1,559,628	586,243,422	7.3%
IN, Indianapolis	3.4%	\$1.50	\$158	821,489	134,123,186	7.7%
KS, Lawrence	3.7%	\$1.34	\$186	15,405	6,741,227	7.4%
KS, Topeka	4.4%	\$0.89	\$132	11,089	13,510,772	8.7%
LA, Baton Rouge	2.1%	\$1.46	\$153	289,993	47,056,194	7.7%
MA, Boston	2.6%	\$2.19	\$267	702,391	247,667,162	6.2%
MD, Baltimore	5.6%	\$1.92	\$215	363,076	144,561,334	6.9%
United States Index	4.2%	\$2.02	\$245	62,087,372	11,948,768,267	6.7%
Canada Index	1.8%	\$1.85**	\$345**	8,742,061	809,296,923	5.1%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
MI, Detroit	5.1%	\$1.51	\$137	741,506	261,874,140	7.5%
MN, Minneapolis	3.2%	\$1.63	\$176	552,750	205,462,482	7.1%
MO, Kansas City*	4.2%	\$1.46	\$167	672,023	131,801,706	7.1%
MO, Saint Louis	4.8%	\$1.35	\$143	778,869	174,714,146	8.1%
NC, Durham	2.6%	\$1.89	\$243	218,203	28,011,900	8.0%
NC, Raleigh	2.4%	\$2.06	\$252	1,218,810	75,641,760	6.4%
NE, Lincoln	3.0%	\$1.18	\$137	48,000	21,436,783	7.4%
NE, Omaha	4.7%	\$1.39	\$155	343,848	64,817,651	7.4%
NJ, Atlantic City	5.6%	\$1.41	\$158	13,835	18,264,232	7.4%
NJ, Northern New Jersey *	4.5%	\$1.98	\$218	458,870	135,780,888	6.9%
NJ, Trenton	4.7%	\$1.83	\$189	100,829	22,001,323	8.0%
NJ, Vineland	4.3%	\$1.22	\$163	0	8,418,248	7.2%
NV, Reno	4.6%	\$1.80	\$218	21,191	27,215,170	7.0%
NY, Long Island	4.3%	\$2.80	\$326	511,575	157,543,958	6.3%
NY, New York *	4.3%	\$3.88	\$431	3,213,846	632,457,883	5.9%
OH, Cincinnati	6.0%	\$1.27	\$128	742,555	133,753,032	7.9%
OH, Cleveland	4.4%	\$1.29	\$113	229,963	147,665,119	8.1%
OH, Columbus	3.6%	\$1.53	\$155	544,536	123,147,557	7.8%
ON, Toronto **	1.6%	\$2.18	\$409	3,553,482	303,535,096	4.5%
PA, Harrisburg	5.7%	\$1.40	\$140	215,227	36,181,699	7.7%
PA, Lehigh Valley *	4.5%	\$1.36	\$138	231,600	49,572,752	8.8%
PA, Philadelphia *	4.4%	\$1.81	\$191	1,520,181	340,535,733	7.0%
SC, Charleston	3.9%	\$1.98	\$254	644,364	49,079,067	6.4%
SC, Greenville	3.5%	\$1.37	\$158	340,419	64,239,160	7.1%
SC, Spartanburg	3.8%	\$1.12	\$120	34,892	26,713,348	8.3%
TN, Nashville	3.3%	\$2.33	\$262	1,379,873	121,076,832	6.1%
TX, Dallas-Fort Worth	4.5%	\$1.89	\$265	4,803,582	470,321,114	6.4%
TX, Houston	4.9%	\$1.91	\$244	4,037,945	430,071,612	6.8%
WA, Seattle	2.9%	\$2.41	\$332	563,072	180,488,132	5.8%
WI, Madison	2.3%	\$1.41	\$156	93,582	41,116,473	7.2%
United States Index	4.2%	\$2.02	\$245	62,087,372	11,948,768,267	6.7%
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** Numbers shown are in Canadian dollars (CAD)