

## RETAIL OVERVIEW: DEMAND CONTINUES; RECESSION POSTPONED AGAIN

Demand for retail space across North America has remained resilient through the first three quarters of 2023 with healthy economic growth in the United States and Canada confounding expectations of a recession.

Net absorption in the United States through Q3 is positive, albeit about 25% behind average growth of the last two years. Tenant demand in Canada through the third quarter nearly equals the healthy tenant growth that occurred in 2020-21. Overall vacancy rates fell to all-time lows across the United States and Canada in the third quarter, but some merchants looking to expand may receive relief soon. In the U.S., about 30 million SF are scheduled for completion by April. In Canada, a record volume of space is slated for delivery in the fourth quarter.

While moderating from the multi-decade high pace seen near the end of 2022, asking rents in the U.S. continue to rise at a healthy clip due to minimal availability and the significant boost in retail sales coming out of the pandemic. Asking rents for retail spaces in the U.S. are up an average of 3.5% over the past year to a record \$24 per SF. Rents average \$22 per SF in Canada, up 5.8% from a year ago.

As the supply of competitive available space has dwindled, stronger pricing power is being enjoyed by landlords who predictably are more selective with new tenant signings and holding firmer in lease negotiations. Economists have been warning of recession for more than a year as the Fed has raised interest rates to fight inflation. Most U.S. leasing activity remains concentrated in spaces smaller than 3,000 SF and overwhelmingly is driven by growth from quick-service restaurants. The food-and-beverage sector accounted for nearly 20% of all leasing activity over the past year. Starbucks, Crumbl Cookies, Yum Brands and Restaurant Brands International, which owns Burger King, Tim Hortons, Popeyes and Firehouse Subs, are among those opening the most locations this year.

Demand for medium to larger spaces has been primarily driven by discounters Dollar Tree, Dollar General and its pOpshelf concept, Philadelphia-based Five Below and others. TJ Maxx, Burlington, Ross and other off-price merchants also have been active. Demand for spaces larger than 10,000 SF increasingly have come from fitness and experiential tenants. The greatest uptick in demand for space has occurred in Sun Belt markets, which are experiencing growth in population and buying power. Leading the way in over the past year, as retail follows rooftops, were Phoenix, San Antonio, Austin, Fort Lauderdale and Kansas City.

Restoration of fundamental balance in retail markets has been due to the limited amount of construction activity. A near historic low of about 50 million SF of space was delivered in the past year. Deliveries primarily have consisted of build-to-suits, grocery-anchored centers or smaller retail spaces in large mixed-use projects. More than 16 million SF of retail space have been demolished in the last four quarters, resulting in net deliveries of 36.7 million SF, which is near the historic low. Developers and local municipalities have razed more than 150 million SF of retail space since 2016 with a significant portion of this stock consisting of vacant department store boxes and defunct malls.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
BC, Vancouver	1.0%	NY, New York*	\$47.40	CA, San Francisco	\$620
ON, Toronto	1.6%	FL, Miami	\$44.40	BC, Vancouver	\$520 CAD
MA, Boston	2.4%	CA, Orange County	\$36.48	CA, Orange County	\$441
MN, Minneapolis	2.9%	CA, Los Angeles	\$35.64	NY, New York*	\$438
FL, Miami	3.0%	CA, San Diego	\$34.32	FL, Miami	\$432
<b>U.S. Index</b>	4.1%	<b>U.S. Index</b>	\$24.48	<b>U.S. Index</b>	\$247
<b>Canada Index</b>	1.7%	<b>Canada Index</b>	\$21.84 CAD	<b>Canada Index</b>	\$334 CAD

  

MOST SF UNDER CONSTRUCTION SF		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
TX, Dallas-Fort Worth	5,156,273	NY, New York*	634,228,671	BC, Vancouver	4.1%
TX, Houston	4,247,367	IL, Chicago	585,896,916	ON, Toronto	4.5%
ON, Toronto	3,110,064	TX, Dallas-Fort Worth	462,444,126	CA, San Francisco	4.6%
NY, New York*	3,007,462	CA, Los Angeles	451,878,886	CA, Orange County	5.0%
AZ, Phoenix	2,143,496	TX, Houston	433,595,825	CA, Los Angeles	5.3%
<b>U.S. Index</b>	60,033,186	<b>U.S. Index</b>	11,976,225,816	<b>U.S. Index</b>	6.7%
<b>Canada Index</b>	9,738,495	<b>Canada Index</b>	812,590,239	<b>Canada Index</b>	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
<b>AB, Calgary **</b>	2.4%	\$1.68	\$281	2,043,239	78,832,628	5.9%
<b>AZ, Phoenix</b>	4.6%	\$2.01	\$250	2,143,496	241,515,109	6.5%
<b>BC, Vancouver **</b>	1.0%	\$2.16	\$520	851,538	127,065,069	4.1%
<b>CA, Bakersfield</b>	4.2%	\$1.60	\$219	155,165	33,468,483	6.4%
<b>CA, East Bay</b>	5.5%	\$2.66	\$342	164,094	124,713,096	5.5%
<b>CA, Fresno</b>	4.7%	\$1.55	\$197	81,655	49,207,206	6.9%
<b>CA, Inland Empire</b>	5.8%	\$2.16	\$302	1,179,730	202,136,019	5.8%
<b>CA, Los Angeles</b>	5.4%	\$2.97	\$420	1,425,561	451,878,886	5.3%
<b>CA, Orange County</b>	4.4%	\$3.04	\$441	132,910	144,097,215	5.0%
<b>CA, San Diego</b>	4.1%	\$2.86	\$407	511,713	139,203,499	5.4%
<b>CA, San Francisco</b>	5.8%	\$3.65	\$620	217,500	83,121,222	4.6%
<b>CA, San Luis Obispo</b>	3.0%	\$2.30	\$315	191,002	15,461,015	5.9%
<b>CA, Santa Barbara</b>	4.2%	\$2.48	\$349	69,016	25,067,657	6.0%
<b>CA, Stockton</b>	4.6%	\$1.78	\$217	16,228	31,263,595	6.6%
<b>CA, Ventura</b>	5.2%	\$2.36	\$304	29,171	42,845,725	5.9%
<b>CO, Denver</b>	4.0%	\$2.07	\$270	1,086,961	161,167,802	6.2%
<b>DC, Washington</b>	4.3%	\$2.68	\$343	1,033,292	267,152,133	6.1%
<b>FL, Fort Myers</b>	3.2%	\$1.74	\$236	195,156	49,137,046	6.4%
<b>FL, Miami</b>	3.0%	\$3.70	\$432	2,043,953	144,427,752	5.4%
<b>FL, Naples</b>	3.9%	\$2.34	\$335	59,899	24,044,310	5.5%
<b>FL, Orlando</b>	3.3%	\$2.38	\$270	1,696,235	155,863,620	6.3%
<b>GA, Atlanta</b>	3.6%	\$1.80	\$212	1,834,051	371,403,561	6.9%
<b>GA, Savannah</b>	3.6%	\$1.95	\$221	80,240	28,197,373	7.4%
<b>ID, Boise</b>	3.5%	\$1.44	\$223	454,049	43,534,187	6.3%
<b>IL, Chicago</b>	5.0%	\$1.74	\$194	1,590,391	585,896,916	7.4%
<b>IN, Indianapolis</b>	3.3%	\$1.48	\$158	1,372,404	134,491,968	7.8%
<b>KS, Lawrence</b>	3.1%	\$1.36	\$188	7,405	6,733,561	7.4%
<b>KS, Topeka</b>	3.8%	\$0.90	\$133	21,729	13,532,885	8.8%
<b>LA, Baton Rouge</b>	1.8%	\$1.48	\$155	286,075	47,223,416	7.7%
<b>MA, Boston</b>	2.4%	\$2.21	\$269	677,543	248,325,859	6.2%
<b>MD, Baltimore</b>	5.4%	\$1.90	\$211	361,597	144,720,917	7.0%
<b>MI, Detroit</b>	5.2%	\$1.53	\$137	1,659,773	261,809,601	7.6%
<b>MN, Minneapolis</b>	2.9%	\$1.62	\$175	284,162	206,607,203	7.1%
<b>United States Index</b>	4.1%	\$2.04	\$247	60,033,186	11,976,225,816	6.7%
<b>Canada Index</b>	1.7%	\$1.82**	\$334**	9,738,495	812,590,239	5.1%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
<b>MO, Kansas City*</b>	4.3%	\$1.47	\$168	613,379	132,307,097	7.1%
<b>MO, Saint Louis</b>	4.8%	\$1.37	\$142	860,951	174,396,979	8.2%
<b>NC, Durham</b>	2.3%	\$1.94	\$237	130,534	28,160,263	8.2%
<b>NC, Raleigh</b>	2.3%	\$2.11	\$254	1,086,163	75,826,206	6.4%
<b>NE, Lincoln</b>	3.1%	\$1.19	\$142	0	21,448,162	7.4%
<b>NE, Omaha</b>	4.6%	\$1.41	\$156	271,986	65,306,520	7.5%
<b>NJ, Atlantic City</b>	5.9%	\$1.43	\$158	13,835	18,376,727	7.4%
<b>NJ, Northern New Jersey *</b>	4.4%	\$2.02	\$219	405,904	136,093,296	6.9%
<b>NJ, Trenton</b>	4.2%	\$1.85	\$191	77,033	21,989,224	8.0%
<b>NJ, Vineland</b>	4.5%	\$1.24	\$168	0	8,378,111	7.2%
<b>NV, Reno</b>	4.9%	\$1.81	\$220	32,387	27,874,257	7.1%
<b>NY, Long Island</b>	4.1%	\$2.83	\$328	881,227	157,103,669	6.3%
<b>NY, New York *</b>	4.2%	\$3.95	\$438	3,007,462	634,228,671	5.9%
<b>OH, Cincinnati</b>	5.8%	\$1.30	\$130	728,946	134,118,229	7.9%
<b>OH, Cleveland</b>	4.4%	\$1.26	\$112	211,405	148,028,505	8.2%
<b>OH, Columbus</b>	3.7%	\$1.57	\$159	437,993	123,399,356	7.7%
<b>ON, Toronto **</b>	1.6%	\$2.14	\$395	3,110,064	303,915,735	4.5%
<b>PA, Harrisburg</b>	5.4%	\$1.41	\$142	134,499	36,523,295	7.7%
<b>PA, Lehigh Valley *</b>	4.3%	\$1.37	\$139	68,600	49,894,387	8.8%
<b>PA, Philadelphia *</b>	4.3%	\$1.82	\$192	1,780,427	341,992,887	7.0%
<b>PA, Pittsburgh</b>	4.2%	\$1.41	\$152	361,869	158,156,627	7.2%
<b>SC, Charleston</b>	3.5%	\$2.01	\$260	636,695	48,901,747	6.4%
<b>SC, Greenville</b>	3.3%	\$1.45	\$166	157,227	64,343,437	7.0%
<b>SC, Spartanburg</b>	3.1%	\$1.14	\$125	66,700	26,845,567	8.2%
<b>TN, Nashville</b>	3.3%	\$2.34	\$263	1,446,606	121,806,621	6.1%
<b>TX, Dallas-Fort Worth</b>	4.4%	\$1.91	\$269	5,156,273	462,444,126	6.4%
<b>TX, Houston</b>	4.9%	\$1.94	\$245	4,247,367	433,595,825	6.8%
<b>WA, Seattle</b>	3.0%	\$2.47	\$338	184,278	180,977,086	5.7%
<b>WI, Madison</b>	2.3%	\$1.41	\$158	167,000	41,334,598	7.2%
<b>United States Index</b>	4.1%	\$2.04	\$247	60,033,186	11,976,225,816	6.7%
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