

RETAIL OVERVIEW: NORTH AMERICAN RETAIL VACANCIES HIT RECORD LOWS

Despite warnings of a softening economy, North American retail property generally performed well for investors in 2023 as steady consumer spending and tenant demand pushed vacancy rates to record lows, making quality space for lease harder to come by. Net absorption in the United States in 2023 totaled 52,778,097 SF. Although growth was down nearly 30% from 2022, the overall vacancy rate fell to a record low 4%. Available space fell 200 basis points in 12 months. Annual rent growth was 3.3%, more than the 2.3% average for eight years prior to the lockdown. In addition to slowing activity, less than 50 million SF of new space was delivered in the U.S.

In Canada, the overall vacancy rate settled at a record low 1.6% at the close of 2023. Vacancy rates of 1.3% for general retail space and power centers, 1.6% for neighborhood centers, 2.3% for strip centers and 3.2% for malls were all record lows. Rent growth of 3.4% in 2023 was close to the annual average. Canadian retail has enjoyed uninterrupted growth, while the U.S. now has posted 12 straight quarters of positive net absorption.

Leases for general retail space and space in neighborhood centers account for about 90% of current net absorption. Leasing activity is dominated by spaces of 3,000 SF of less, which is overwhelmingly 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 BK, Tim Hortons, Popeyes, and Firehouse Subs, signed for dozens of new locations across the country in 2023.

From a geographic perspective, the greatest uptick in demand for retail space has been seen in Sun Belt markets experiencing strong population and buying power growth. Leading the way in inventory-adjusted demand growth over the past year were Phoenix, San Antonio, Austin, Fort Lauderdale, and Kansas City, as retail continues to follow rooftop growth. A primary driver of the restoration of fundamental balance within retail space markets has been the limited amount of construction activity across the country. New construction has primarily focused on build-to-suits, grocery-anchored centers or smaller retail spaces in large mixed-use projects. This helps explain the above-average leasing rates for new retail properties, as less than 20% of space delivered over the past year was available for lease at the end of 23Q3.

Any threat coming from new supply is expected to remain minimal for the foreseeable future. Only 55.4 million SF of retail space is underway across the U.S. Additionally, starts have been falling over the past year despite tightening fundamentals. While this appears to be inconsistent with typical behavior in a tight market, the recent rise in construction financing costs, coupled with record-high land and labor costs, often challenge the economics of new development. Thus, the recent decline in starts is likely to continue until new development pencils through a combination of moderating input costs and rising rents.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
BC, Vancouver	1.0%	NY, New York*	\$47.52	CA, San Francisco	\$602
ON, Toronto	1.5%	FL, Miami	\$45.00	BC, Vancouver	\$558 CAD
MA, Boston	2.4%	CA, Los Angeles	\$36.36	NY, New York*	\$441
MN, Minneapolis	2.9%	CA, Orange County	\$35.76	FL, Miami	\$441
FL, Miami	3.0%	NY, Long Island	\$34.56	CA, Orange County	\$435
U.S. Index	4.1%	U.S. Index	\$24.72	U.S. Index	\$248
Canada Index	1.7%	Canada Index	\$22.56 CAD	Canada Index	\$345 CAD

MOST SF UNDER CONSTRUCTION SF		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
TX, Dallas-Fort Worth	4,923,752	NY, New York*	633,802,077	BC, Vancouver	4.1%
TX, Houston	3,207,822	IL, Chicago	587,413,980	ON, Toronto	4.5%
ON, Toronto	2,985,556	TX, Dallas-Fort Worth	467,077,255	CA, San Francisco	4.7%
AZ, Phoenix	2,603,037	CA, Los Angeles	453,132,759	CA, Orange County	5.1%
NY, New York*	2,531,277	TX, Houston	436,131,360	CA, Los Angeles	5.3%
U.S. Index	55,565,809	U.S. Index	12,023,908,849	U.S. Index	6.8%
Canada Index	9,924,117	Canada Index	816,381,483	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 **	2.2%	\$1.79	\$280	1,917,650	79,080,928	6.0%
AZ, Phoenix	4.5%	\$2.04	\$253	2,603,037	242,493,614	6.5%
BC, Vancouver **	1.0%	\$2.30	\$558	912,992	128,181,728	4.1%
CA, Bakersfield	4.4%	\$1.62	\$220	142,085	33,811,636	6.5%
CA, East Bay	5.1%	\$2.64	\$337	323,605	124,944,468	5.5%
CA, Fresno	4.8%	\$1.57	\$201	144,799	49,296,387	6.9%
CA, Inland Empire	5.4%	\$2.17	\$301	1,043,409	202,051,876	5.8%
CA, Los Angeles	5.3%	\$3.03	\$429	2,192,089	453,132,759	5.3%
CA, Orange County	4.3%	\$2.98	\$435	95,570	144,215,440	5.1%
CA, San Diego	3.8%	\$2.86	\$406	444,516	139,031,787	5.4%
CA, San Francisco	5.9%	\$3.59	\$602	217,500	82,795,763	4.7%
CA, San Luis Obispo	2.6%	\$2.31	\$308	199,331	15,483,758	6.0%
CA, Santa Barbara	4.1%	\$2.51	\$351	35,000	25,037,206	6.1%
CA, Stockton	4.7%	\$1.79	\$218	16,228	31,335,268	6.6%
CA, Ventura	5.4%	\$2.36	\$307	31,871	42,743,203	5.9%
CO, Denver	4.0%	\$2.12	\$275	374,951	164,554,350	6.2%
DC, Washington	4.4%	\$2.69	\$344	989,275	267,525,927	6.2%
FL, Fort Myers	3.0%	\$1.77	\$240	245,632	49,207,551	6.4%
FL, Miami	3.0%	\$3.75	\$441	1,329,476	145,908,116	5.4%
FL, Naples	4.0%	\$2.38	\$338	47,216	24,088,861	5.5%
FL, Orlando	3.2%	\$2.43	\$275	1,298,617	157,569,581	6.3%
FL, Tampa Bay	3.3%	\$2.13	\$265	551,753	176,050,711	6.3%
GA, Atlanta	3.5%	\$1.86	\$219	1,092,347	372,602,262	6.8%
GA, Savannah	3.1%	\$1.98	\$223	97,455	28,300,251	7.4%
ID, Boise	3.4%	\$1.45	\$223	482,502	43,565,788	6.4%
IL, Chicago	4.8%	\$1.77	\$194	1,426,034	587,413,980	7.4%
IN, Indianapolis	3.1%	\$1.52	\$158	1,371,486	134,868,033	7.8%
KS, Lawrence	2.8%	\$1.37	\$187	7,225	6,735,507	7.4%
KS, Topeka	3.8%	\$0.91	\$135	0	13,609,305	8.8%
LA, Baton Rouge	2.2%	\$1.51	\$155	281,496	47,410,198	7.8%
MA, Boston	2.4%	\$2.21	\$274	600,043	249,328,202	6.2%
MD, Baltimore	5.4%	\$1.96	\$213	346,852	144,714,406	7.0%
MI, Detroit	5.1%	\$1.55	\$137	1,517,800	262,440,865	7.6%
MN, Minneapolis	2.9%	\$1.67	\$176	390,181	207,791,737	7.2%
United States Index	4.1%	\$2.06	\$248	55,565,809	12,023,908,849	6.8%
Canada Index	1.7%	\$1.88**	\$345**	9,924,117	816,381,483	5.1%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
MO, Kansas City*	4.2%	\$1.48	\$170	440,874	132,895,952	7.1%
MO, Saint Louis	4.6%	\$1.38	\$144	640,098	175,745,356	8.2%
NC, Durham	2.1%	\$1.96	\$241	267,391	28,036,941	8.2%
NC, Raleigh	2.1%	\$2.12	\$256	1,196,211	75,973,364	6.4%
NE, Lincoln	2.9%	\$1.19	\$142	0	22,033,773	7.4%
NE, Omaha	4.7%	\$1.47	\$162	383,052	65,585,957	7.4%
NJ, Atlantic City	5.1%	\$1.44	\$159	0	18,443,971	7.4%
NJ, Northern New Jersey *	4.1%	\$1.94	\$213	329,863	136,416,372	7.1%
NJ, Trenton	4.0%	\$1.87	\$191	89,258	22,087,711	8.0%
NJ, Vineland	4.6%	\$1.25	\$167	0	8,427,854	7.2%
NV, Reno	4.5%	\$1.82	\$219	39,171	27,949,553	7.1%
NY, Long Island	4.0%	\$2.88	\$333	861,267	157,444,791	6.3%
NY, New York *	4.1%	\$3.96	\$441	2,531,277	633,802,077	5.9%
OH, Cincinnati	5.7%	\$1.28	\$127	883,090	134,831,806	8.0%
OH, Cleveland	4.6%	\$1.25	\$110	258,184	147,877,875	8.3%
OH, Columbus	3.7%	\$1.54	\$154	389,021	123,461,584	7.9%
ON, Toronto **	1.5%	\$2.17	\$405	2,985,556	304,223,250	4.5%
PA, Harrisburg	4.8%	\$1.40	\$145	123,675	38,245,018	7.6%
PA, Lehigh Valley *	4.5%	\$1.38	\$141	6,900	51,200,470	8.8%
PA, Philadelphia *	4.2%	\$1.81	\$193	1,762,209	342,985,397	7.1%
PA, Pittsburgh	4.2%	\$1.45	\$154	369,569	158,699,954	7.2%
SC, Charleston	3.0%	\$2.05	\$266	642,903	49,111,171	6.4%
SC, Greenville	3.2%	\$1.44	\$166	122,095	64,220,081	7.1%
SC, Spartanburg	3.0%	\$1.16	\$131	71,500	27,011,864	8.1%
TN, Nashville	3.2%	\$2.32	\$263	1,156,107	122,580,090	6.1%
TX, Dallas-Fort Worth	4.4%	\$1.96	\$275	4,923,752	467,077,255	6.3%
TX, Houston	4.9%	\$1.97	\$249	3,207,822	436,131,360	6.8%
WA, Seattle	3.0%	\$2.48	\$337	364,723	181,484,059	5.8%
WI, Madison	2.1%	\$1.41	\$156	167,000	41,430,373	7.3%
United States Index	4.1%	\$2.06	\$248	55,565,809	12,023,908,849	6.8%
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** Numbers shown are in Canadian dollars (CAD)