

3Q24

# The U.S. Retail Market: Conditions & Trends



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# Market Observations



## Economic Conditions and Retail Demand Drivers

- Consumer wage growth is now outpacing inflation. Average hourly earnings have risen 3.9% year-over-year, yet challenges persist.
- Although wage growth has surpassed CPI for several quarters, consumer confidence in the current economic landscape remains subdued. Interestingly, their outlook for the future carries an 11-point premium—marking the highest level since 1980.



## Capital Markets

- Retail capital markets in the U.S. remain subdued, with just 33.0 million SF traded in the third quarter of 2024. Price per SF is stable; however, the spread between high-quality and lower-quality retail properties continues to widen as many sites are acquired as value-add or opportunistic investments.
- Cap rates increased by 10 basis points sequentially and 50 basis points year-over-year, maintaining a solid spread over BBB Corporate Bonds, though not yet reaching late 2021 and early 2022 levels.
- Overall, fundamentals remain strong. A substantial influx of prime centers hitting the market in 2025 is expected to drive investment activity.



## Leasing Market Fundamentals

- The U.S. retail availability rate holds steady at a decades-low 5.0%, despite a slowdown in leasing activity. Approximately 29.3 million SF of retail space was leased in the third quarter of 2024—around 33% below the ten-year average—largely due to limited availability in high-demand trade areas, particularly for prime retail assets.
- The trend favoring suburban over urban retail persists, with a 50-basis-point spread in demand between the two.
- With only 5.8 million SF of new retail space delivered this quarter, market conditions remain tight.



## Outlook

- For occupiers, the trend of suburban migration in retail will continue as flexible office-based employment persists. While urban submarket availability rises, small spaces remain limited.
- The market faces minimal risk of oversupply, even as some retailers shutter underperforming stores, due to both the scarcity of prime development sites and high construction costs.
- On the investor front, multi-tenant investment volume shows a gradual recovery, whereas volume in freestanding assets continues to decline. Activity in primary markets remains subdued, with growing interest in secondary and tertiary markets driving up volume and generating significant attention.

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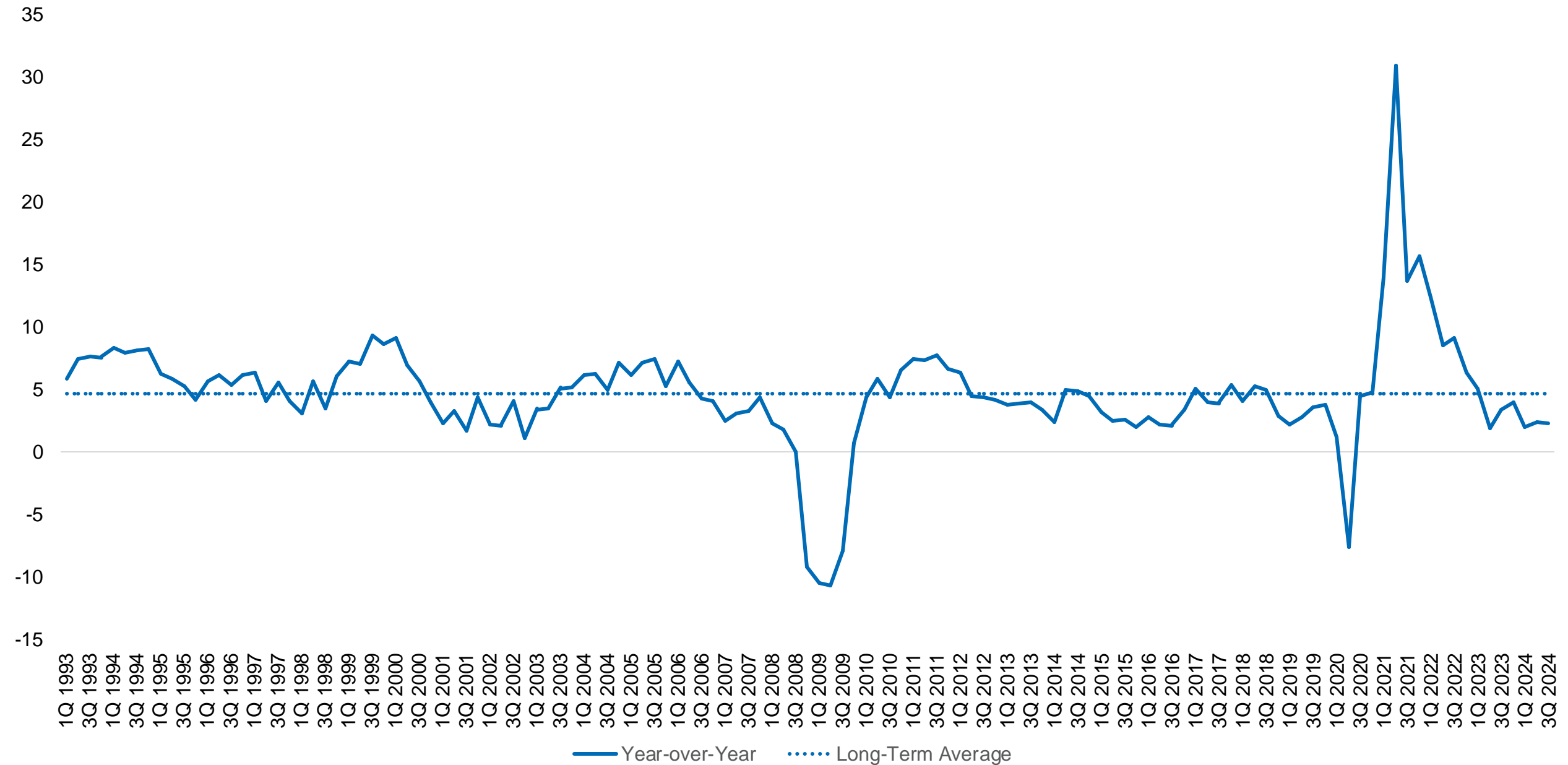
# Economic Conditions & Demand Drivers



# Consumers Have Kept Retail Sales Growth Positive

Despite retail sales growth falling below the long-term average since early 2023, the rate remains positive, defying analyst predictions of decline as consumer demand stays strong. This resilience is particularly notable considering the decline in fuel prices since their peak in 2022.

Retail Trade and Food Services Sales, in Year-over-Year % Growth vs. Long-Term Average % Growth

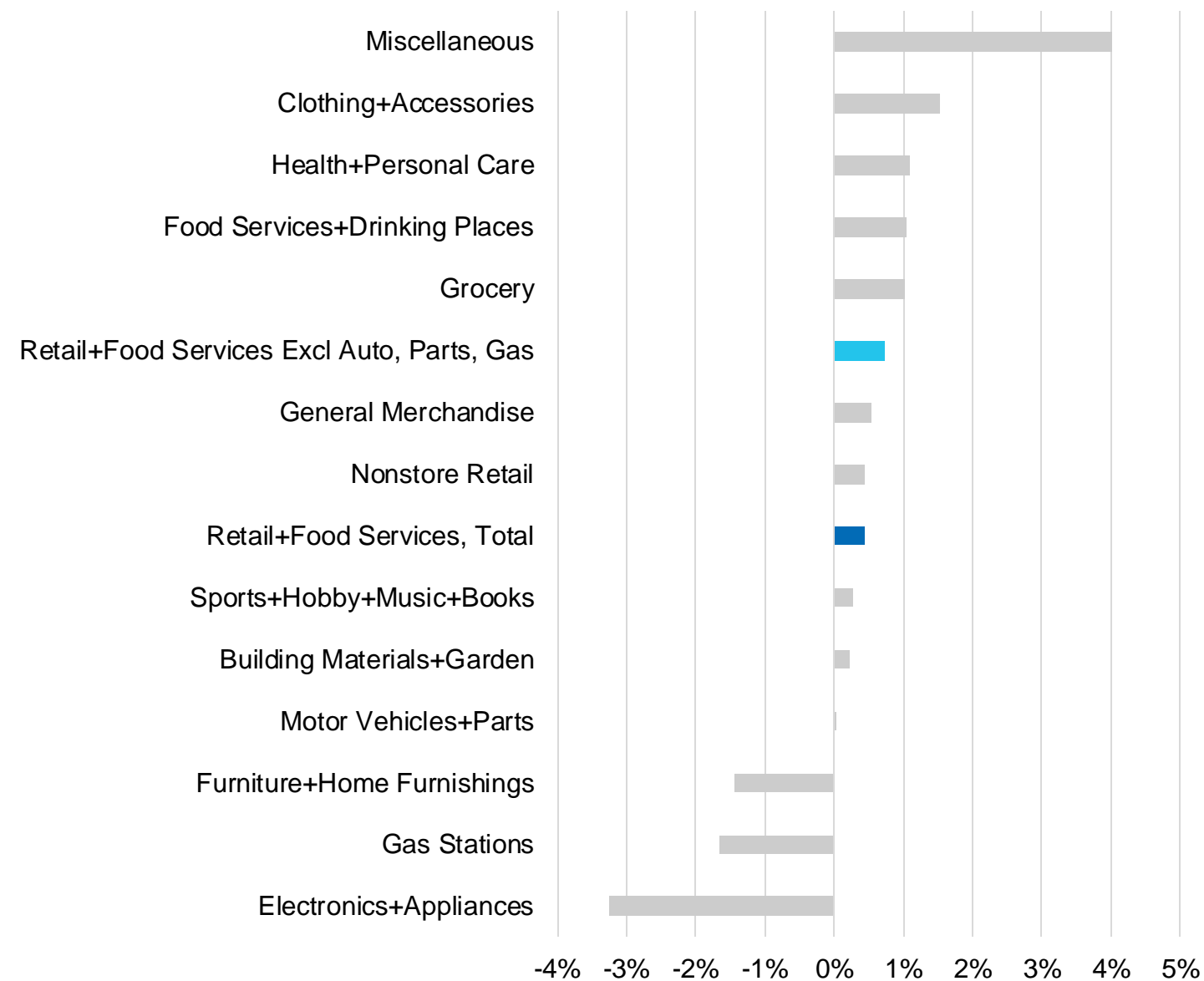


Source: U.S. Census Bureau, October 2024.

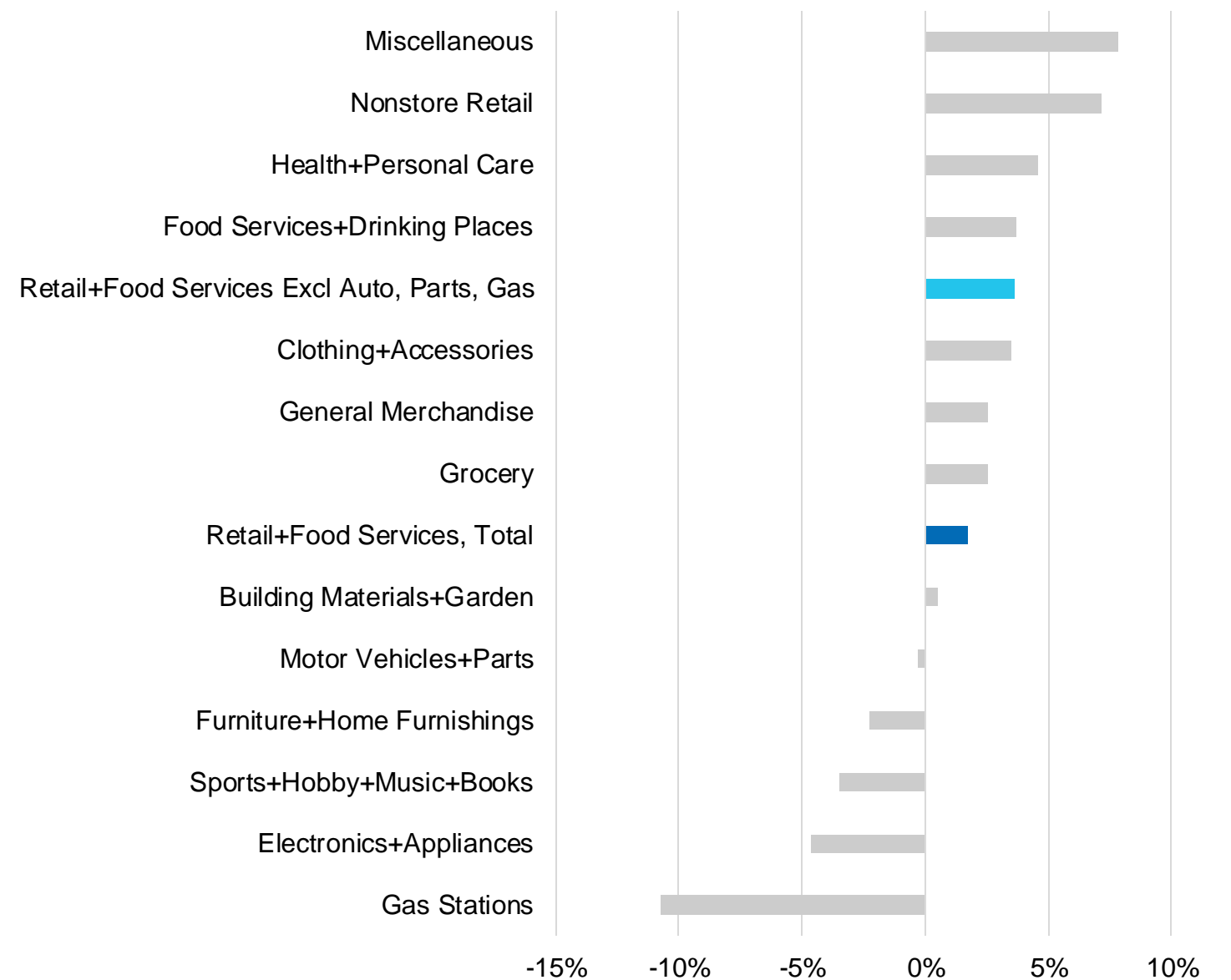
# Retail Sales Exceed Expectations in September

The 0.4% sequential increase in total retail and food services sales signals ongoing economic growth, fueled by steady consumer spending. Miscellaneous stores led all categories in month-over-month and year-over-year growth, with health and personal care stores also showing strong performance. Food services and drinking places—now representing about 18% of all retail spending when excluding auto, auto parts, and gas—grew just over 1.0% from August, sustaining a year-over-year growth rate of 3.7%.

Retail Sales by Store Type, Month-Over-Month % Growth



Retail Sales by Store Type, Year-Over-Year % Growth

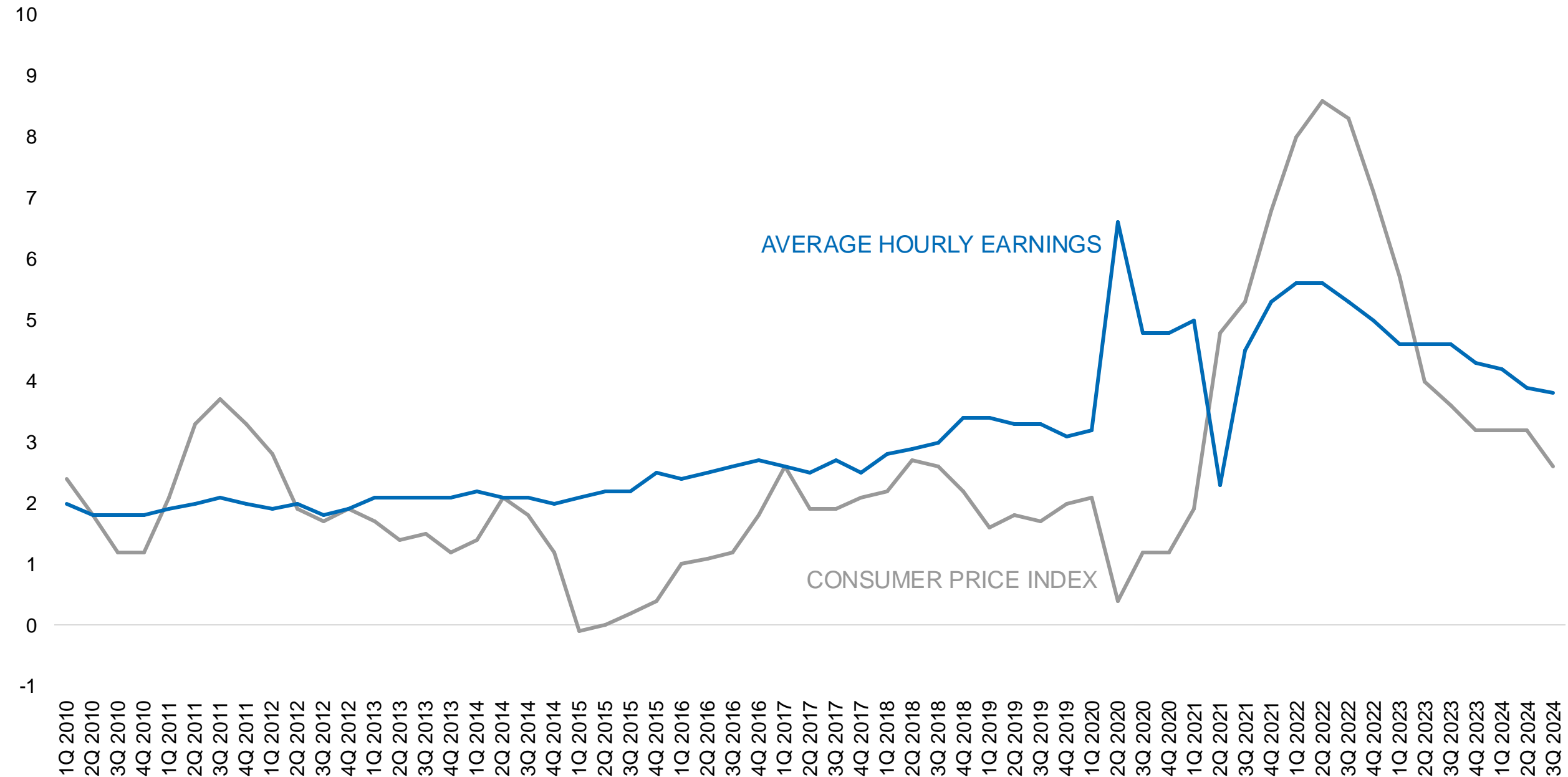


Source: U.S. Census Bureau, October 2024.

# Despite Economic Uncertainty, Wage Growth Outpaces Inflation

Real wage growth has resumed following two years of disruption from high inflation. While inflation remains elevated, wage growth is now outpacing price increases, supporting additional consumer spending and driving stronger-than-expected retail sales.

## Wages vs. Inflation, in Year-over-Year Growth

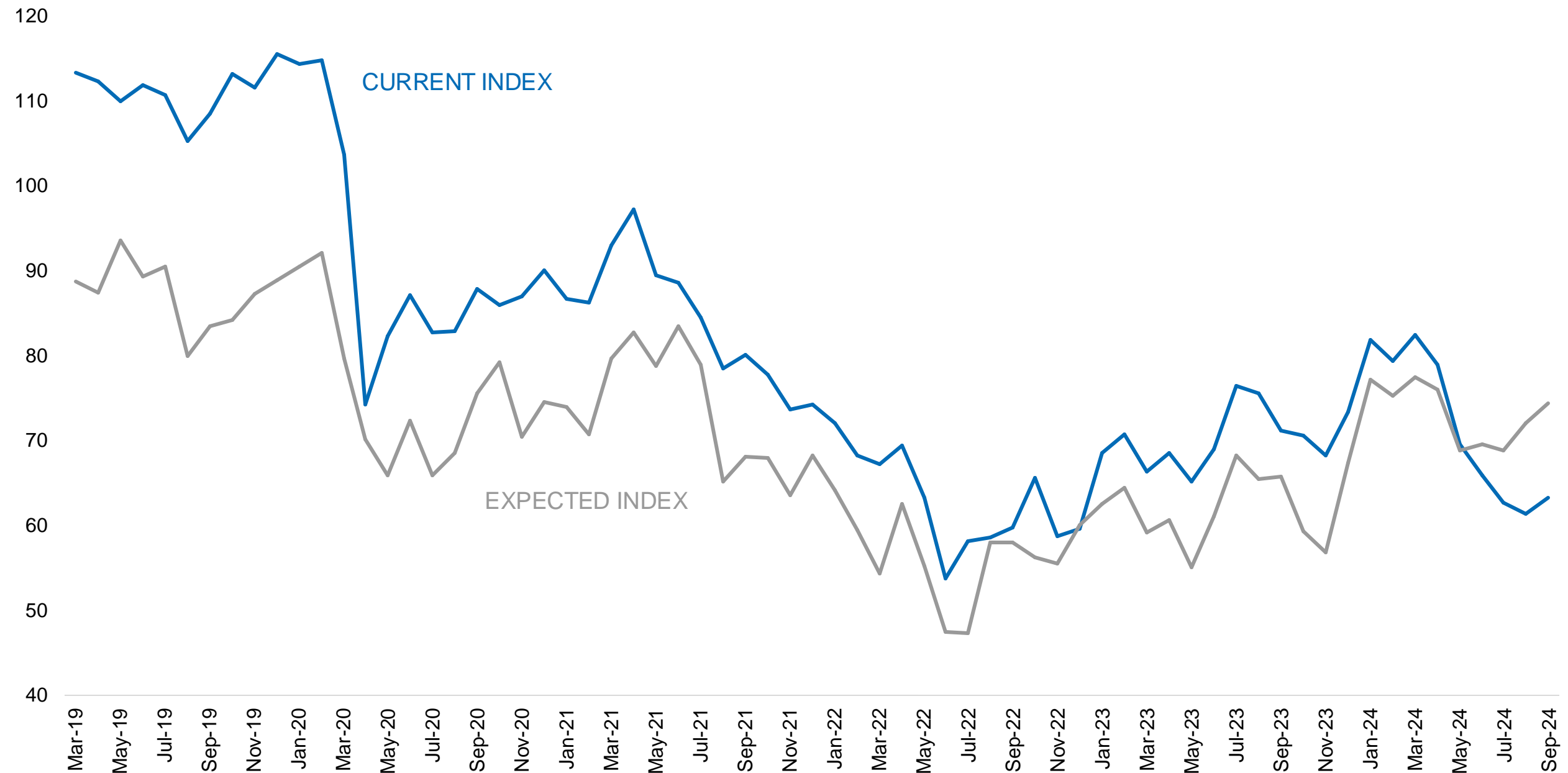


Based on the Consumer Price Index for All Urban Consumers: All Items, and the Average Hourly Earnings of All Private Employees.  
Source: U.S. Bureau of Labor Statistics, November 2024.

# Consumer Confidence About Future Ticks Up

Although consumer confidence has improved since its low in the summer of 2022, overall levels remain subdued, with many beginning to glimpse a brighter future. Notably, as of August 2024, the expectations index began to rise, creating an unusual situation where it stands significantly higher than the current index.

## Consumer Confidence Index



Source: University of Michigan, September 2024.



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# Consumers Anticipate Price Stabilization Following Years of Inflation



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# Housing Affordability Strains Consumers



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# Smartphone Ownership Transforms Consumer Behavior and Retail



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# Leasing Market Fundamentals

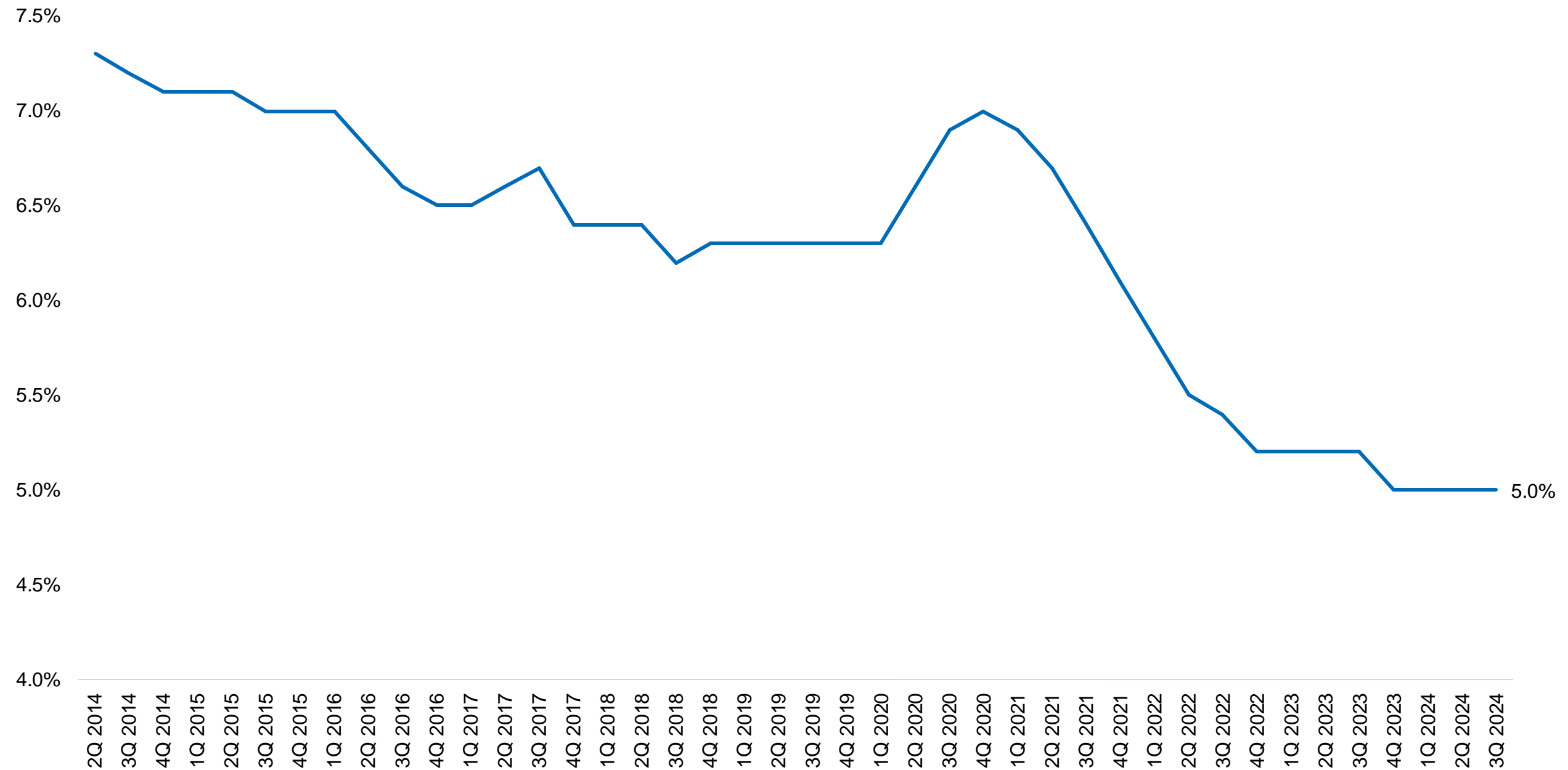




# Retail Availability At Historic Lows

For the last four quarters, the availability rate has held steady at 5.0%. This is largely due to a combination of steady demand and an overall lack of new retail construction starts and completions.

## Historical Availability for Retail CRE, All Formats

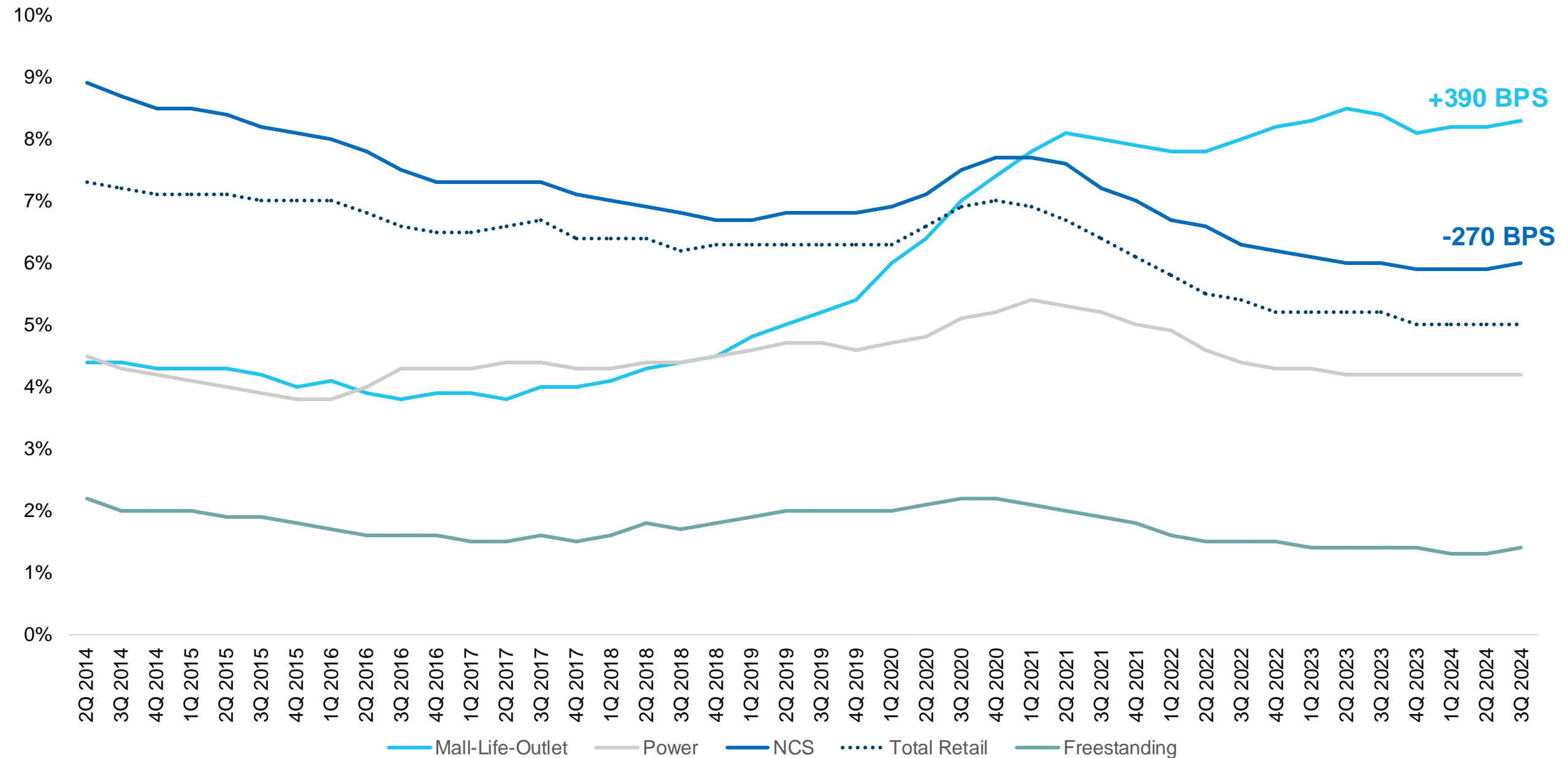


Considers all retail properties 20,000 sq. ft. and higher.  
Source: CoStar, 3Q 2024.

# Retail Availability At Historic Lows

Malls, lifestyle centers, and outlet centers saw a surge in availability from 2020 to 2021. However, strong demand for open-air neighborhood, community, and strip centers has since driven total availability to a historic low of 5.0%. Freestanding retail has also performed well, with rising demand for drive-throughs at QSRs and fast-casual restaurants. Currently, malls, lifestyle, and outlet centers are the only retail categories maintaining availability rates higher than pre-pandemic levels.

Historical Availability for Retail CRE, by Format

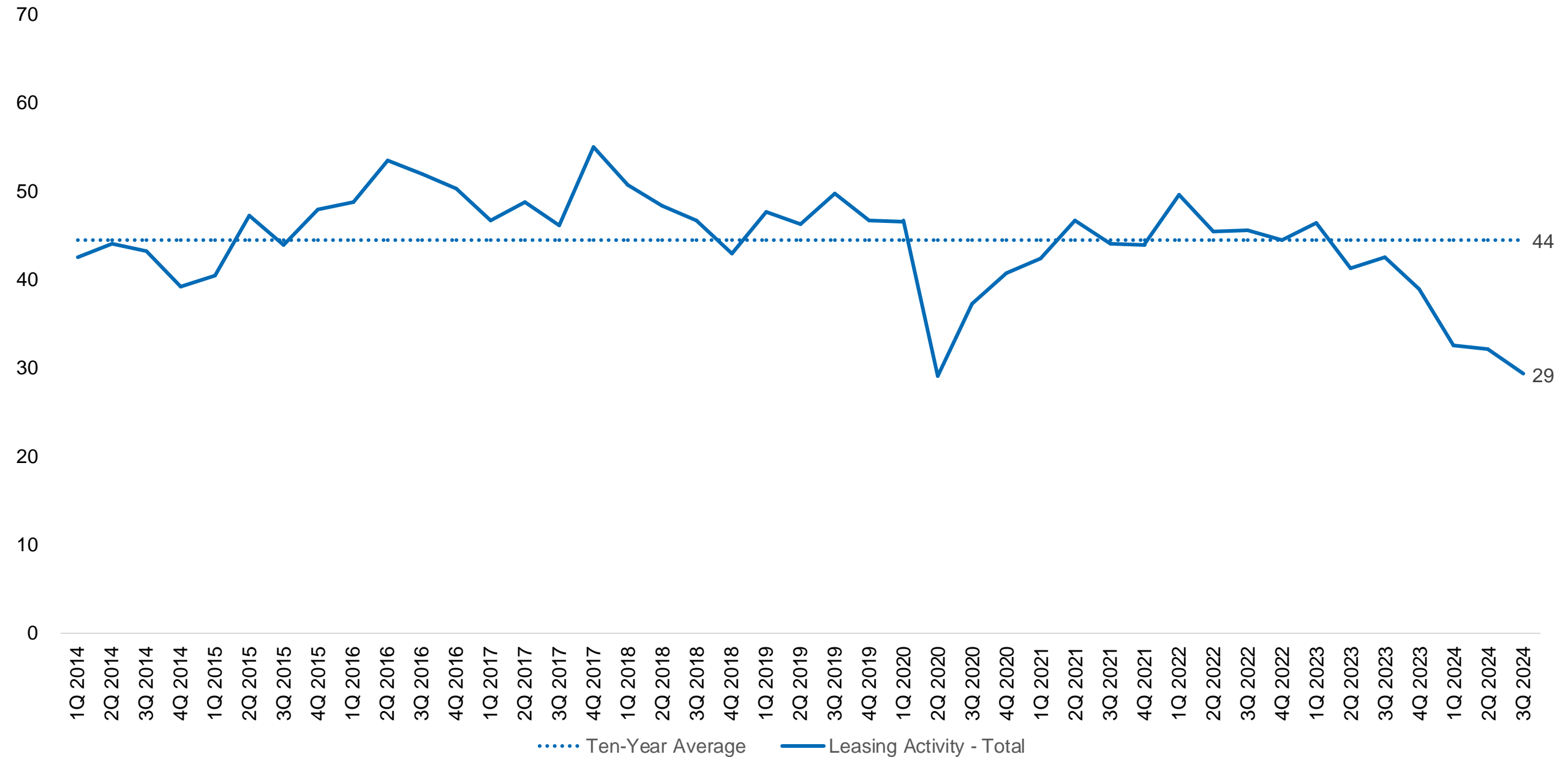


Considers all retail properties 20,000 sq. ft. and higher.  
Source: CoStar, 3Q 2024.

# Lease Activity Slows

Lease activity has declined in recent quarters, down 31% year-over-year and approximately 33% below the ten-year average. However, fundamentals remain solid due to limited new construction. The slowdown is also influenced by fewer openings of discount and dollar stores, which had driven leasing activity in recent years.

Quarterly Leasing Activity vs. Ten Year Average for Retail CRE, in Millions of SF

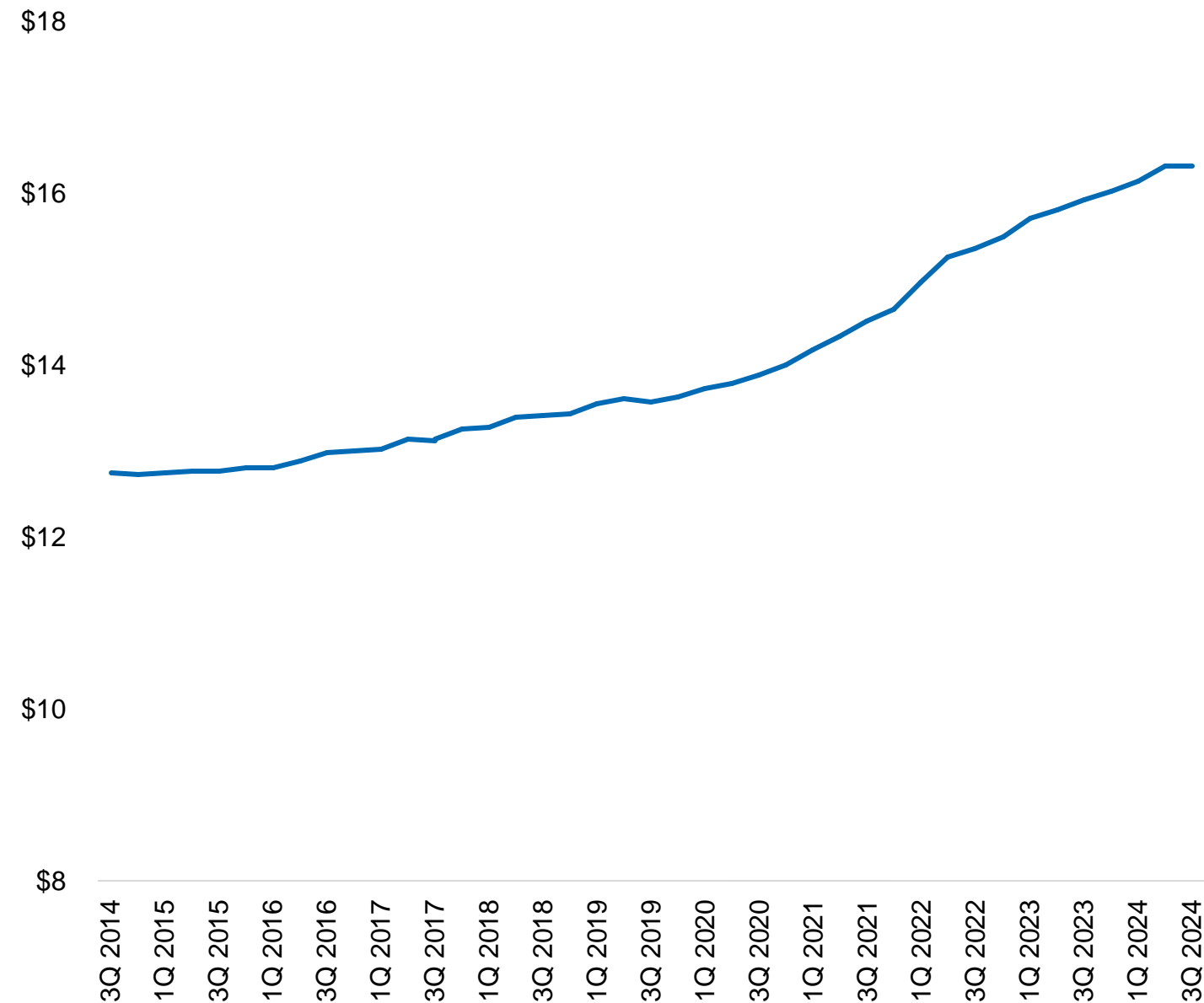


Considers all retail properties 20,000 sq. ft. and higher.  
Source: CoStar, 3Q 2024.

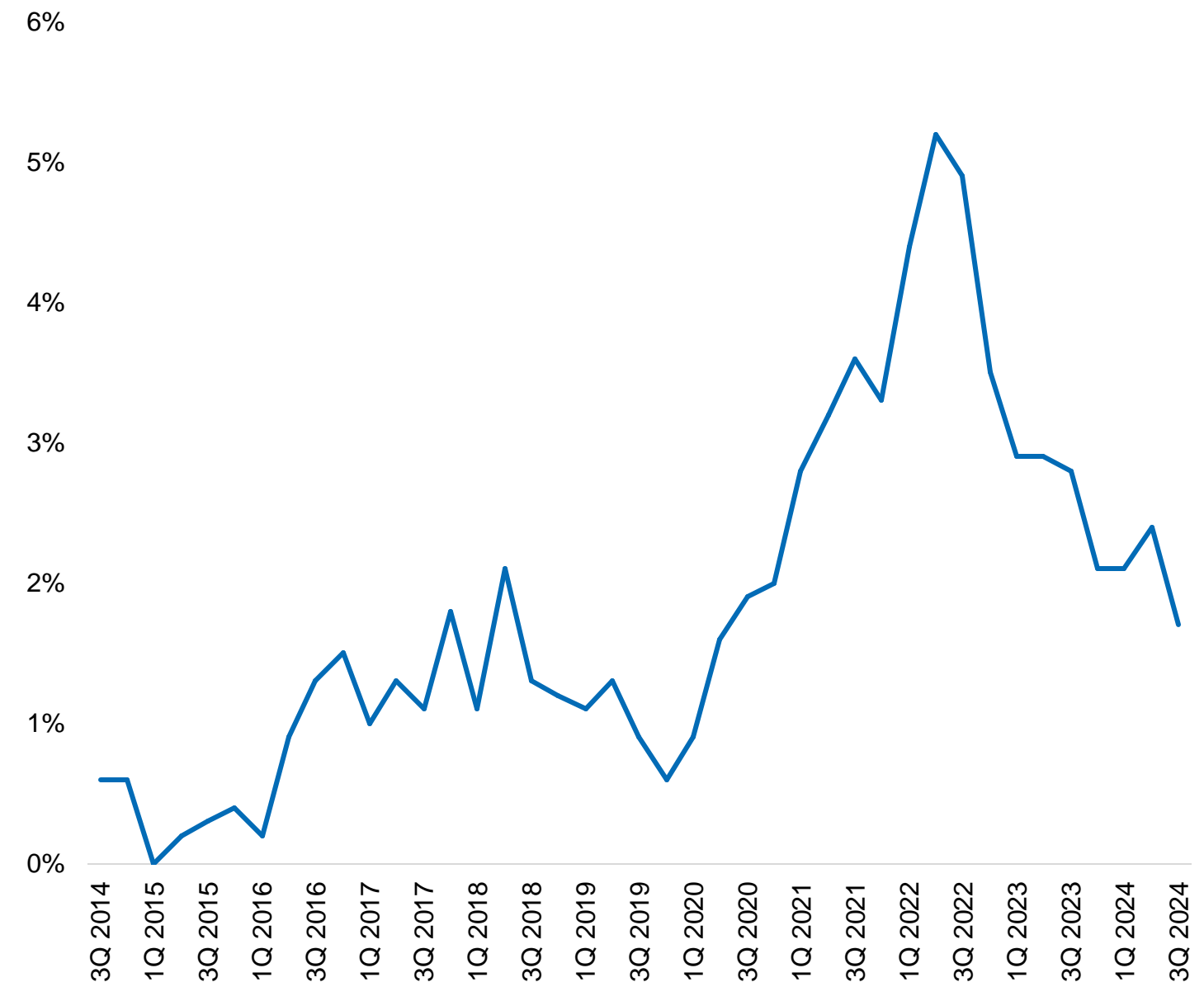
# Asking Rents Rise as Prime Spaces Command Premium Rates

With high construction and build-out costs, retailers are increasingly hesitant to relocate or open new stores. Landlords are capitalizing on this by raising rent spreads on both new leases and renewals. Asking rents for new spaces continue to climb, with effective rents holding steady alongside overall asking rents. However, rent growth has slowed since the pandemic, likely due to an uptick in available space at underperforming retail centers.

Asking Retail CRE Rents, \$/SF, NNN



Asking Retail CRE Rent % Growth, Year-over-Year



Source: CoStar, 3Q 2024.



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Deliveries Low + Consistent Demand = Record Low Availability



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## Retail Demand for New Space Outpaces Other CRE Sectors



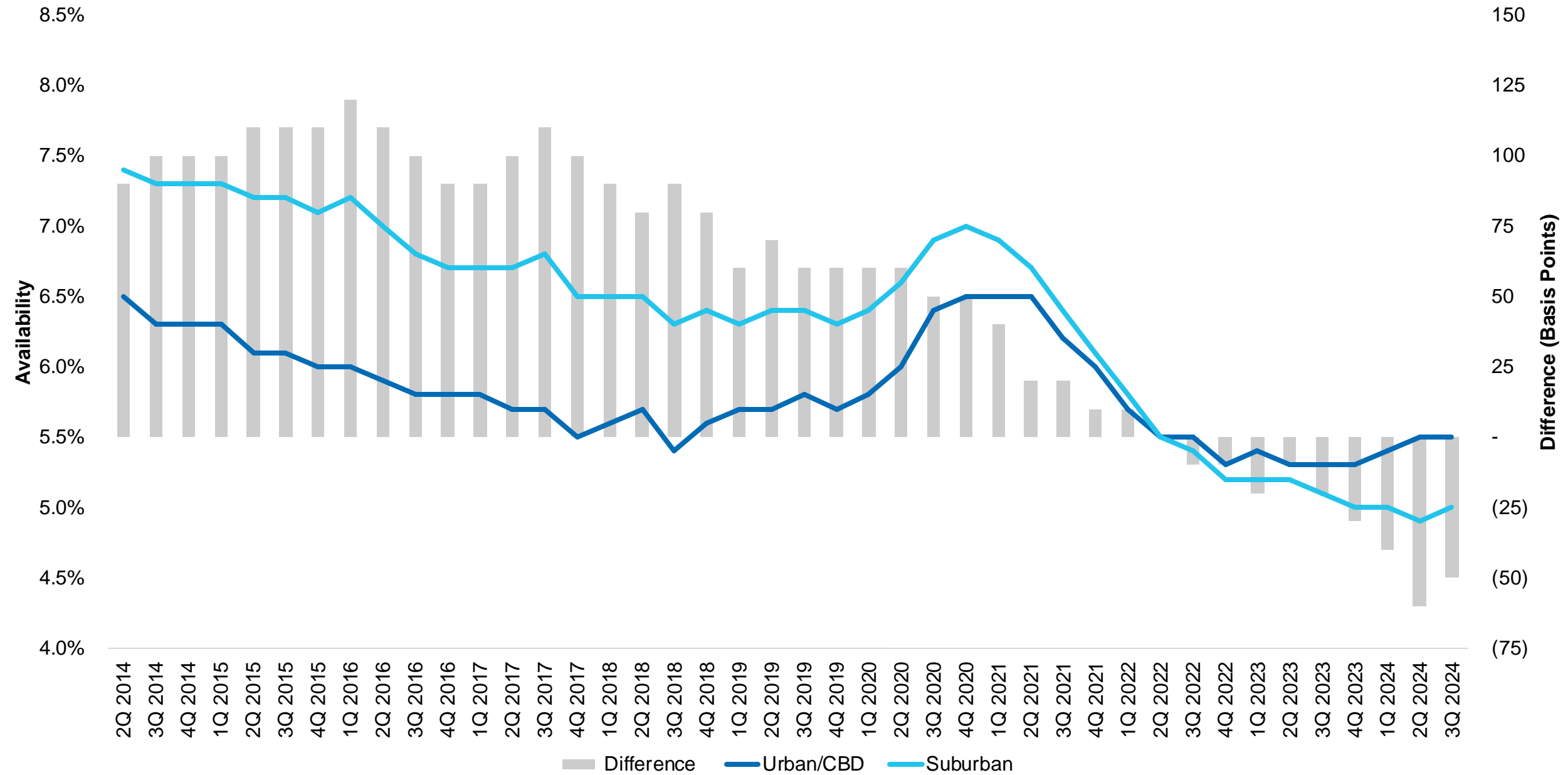
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# Suburban vs. Urban Trend Is Real

Much like the urban migration trend of the 2000s spurred growth in city-based restaurants and retail, the post-pandemic shift back toward suburban areas has bolstered suburban retail. For the first time in over a decade, suburban retail assets now show tighter availability than their urban counterparts.

Suburban vs. Urban Retail: In % Availability and BPS Difference



Source: CoStar, 3Q 2024.

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## Distinct Trends Emerge in Urban Retail



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# Capital Markets

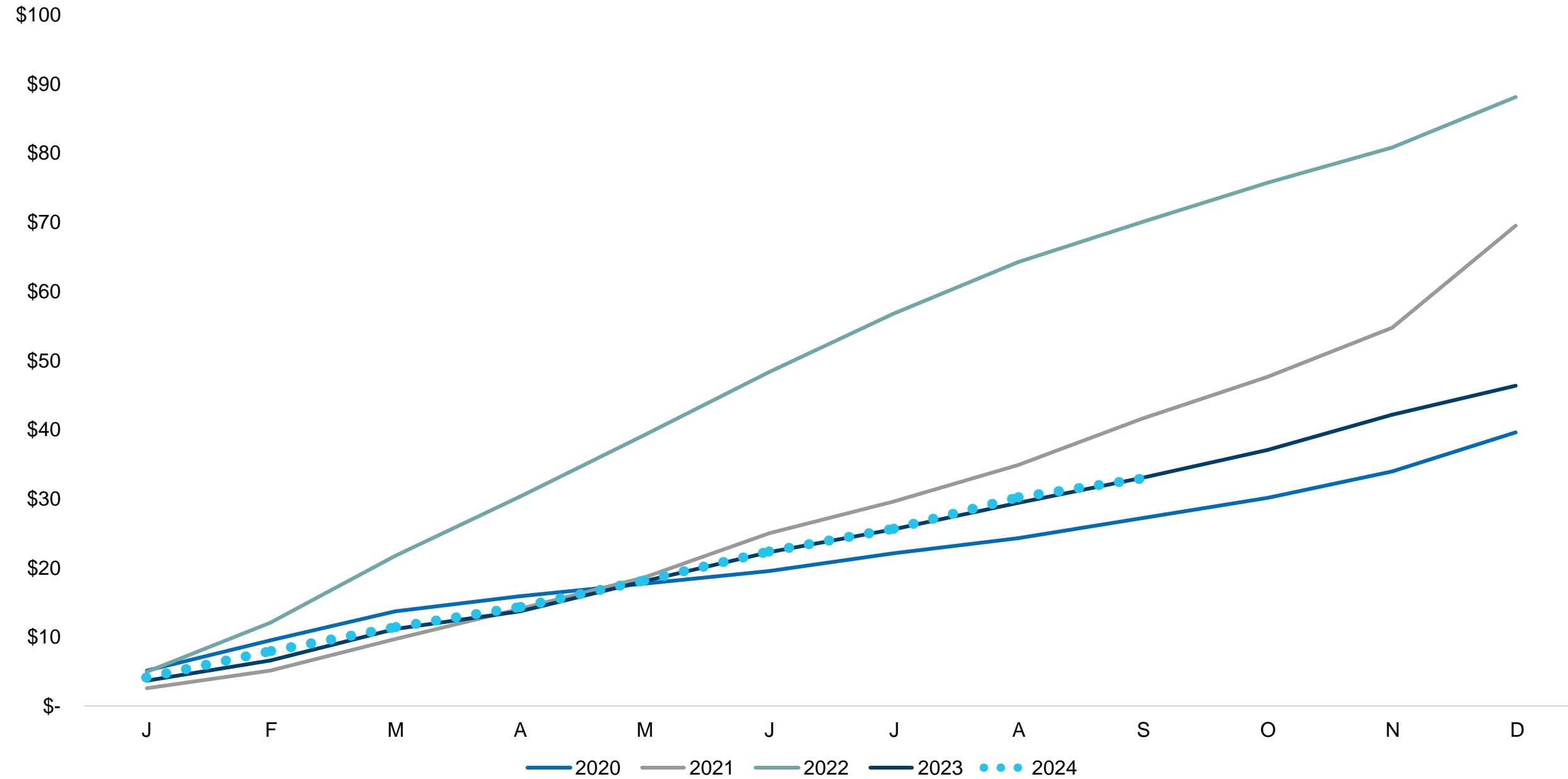




# Retail Investment Sale Volume Muted

Hopes for a rebound in retail investment volume will likely have to wait until 2025. While industry professionals note renewed interest from investment groups—many of whom have generally avoided retail—actual deal activity remains on par with 2023 levels, which were notably lower than in 2021 and 2022.

Investment Volume for Retail CRE, in Billions of \$

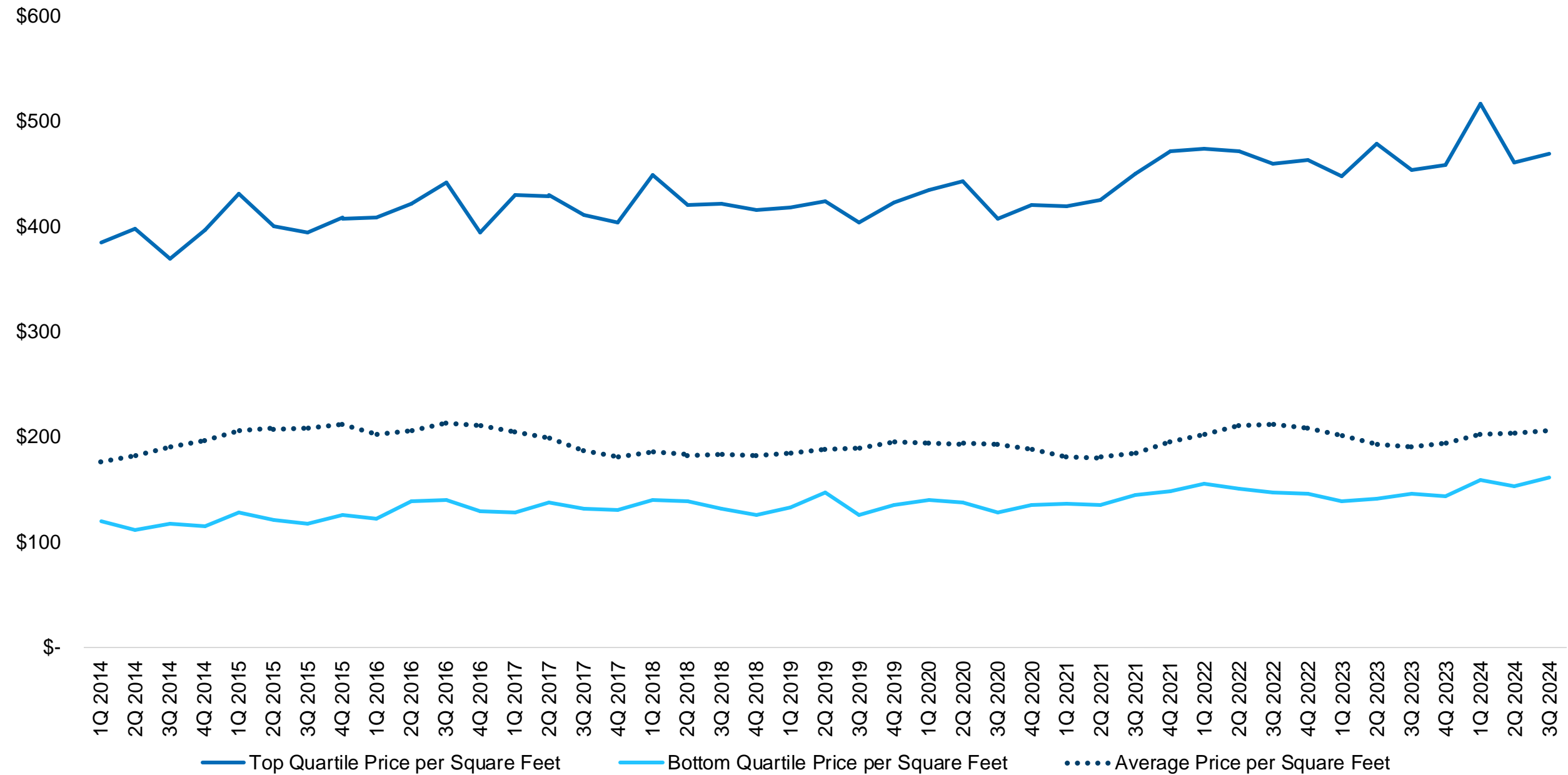


Source: MCI Real Capital Analytics, October 2024.

# Price Per SF Has Remained Level For Decade

Discount investors in the retail market have contributed to lowering the average price per square foot, even as high-end prices have inched upward, remaining steady in the mid-\$400s per square foot over the past few years.

## Price Per SF for Retail CRE



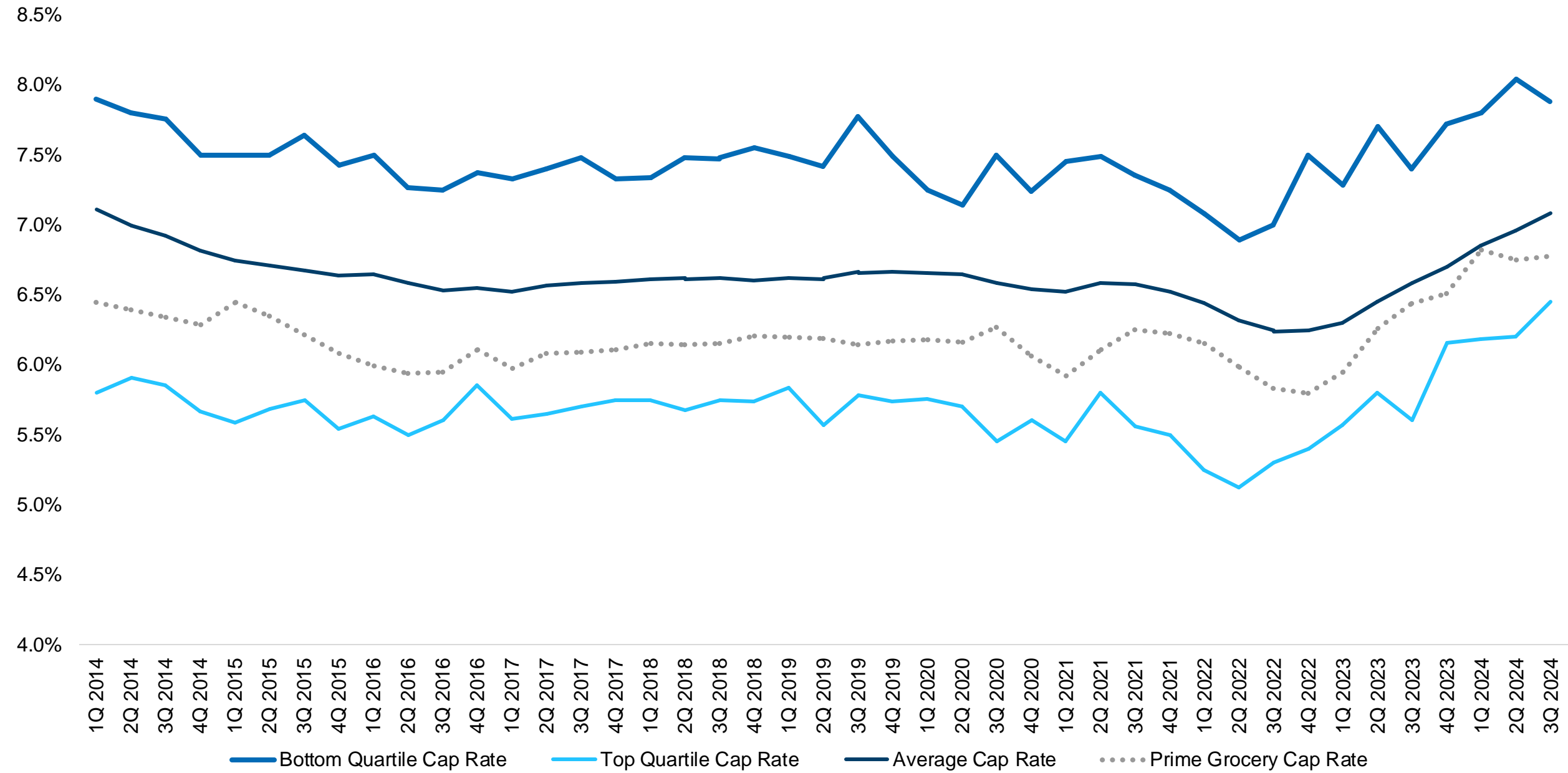
Source: MCI Real Capital Analytics, October 2024.



# Cap Rates Rise, Yet Some Stay Near Pre-Pandemic Levels

Retail cap rates are rising after some insulation from industry-wide increases. For grocery-anchored centers over \$200 per square foot, cap rates reached around 6.6% in 2Q 2024—up 50 bps from 2Q 2023 and 80 bps from 2Q 2022.

## Cap Rates for Retail CRE



Source: MCI Real Capital Analytics, October 2024.

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## Private Equity Dry Powder Declines From 2022 Peak, Remains Elevated



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## What Has Happened to Values? It Depends On Benchmark



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## REIT Returns Rebound Sharply from Post-2021 Lows

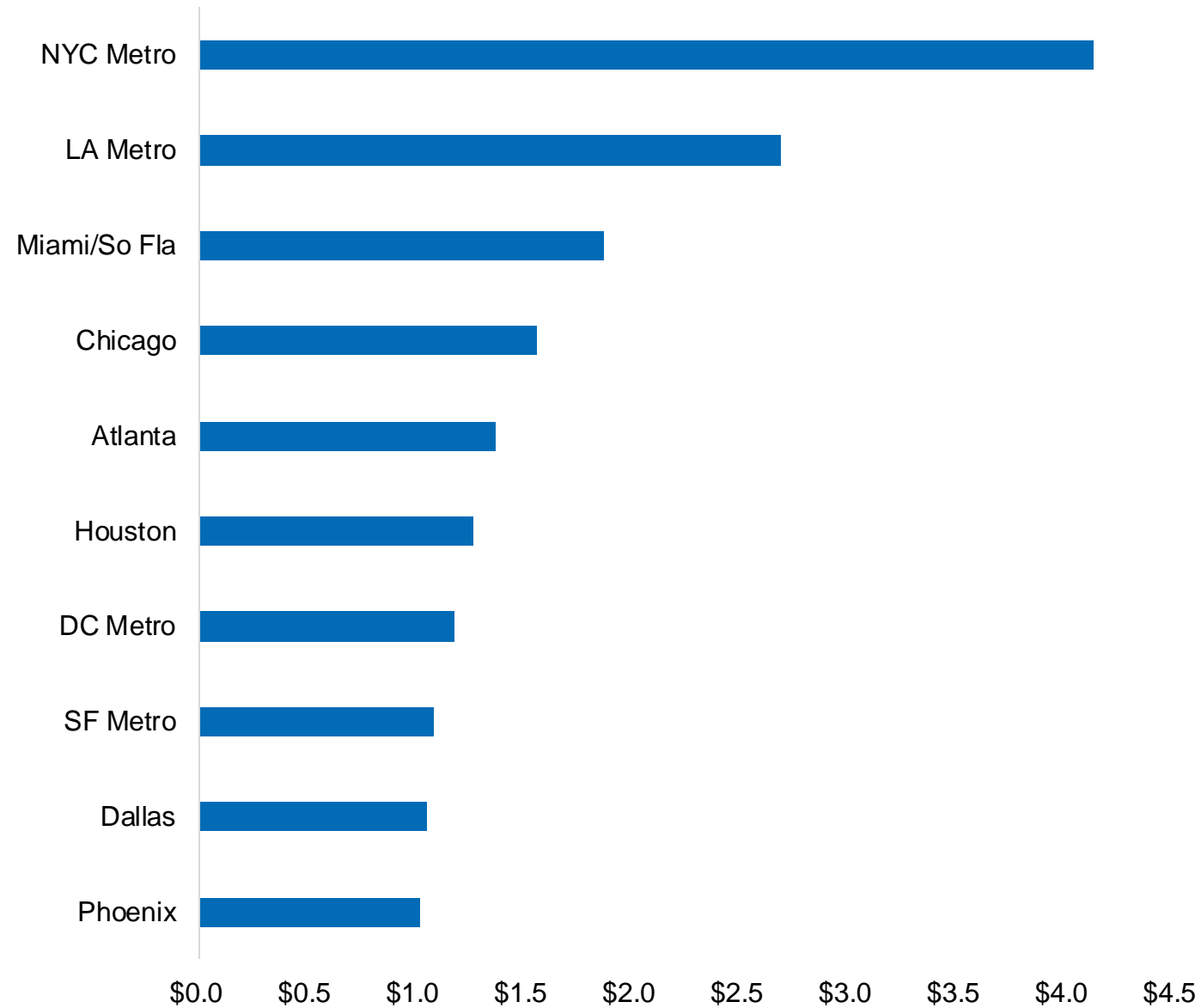


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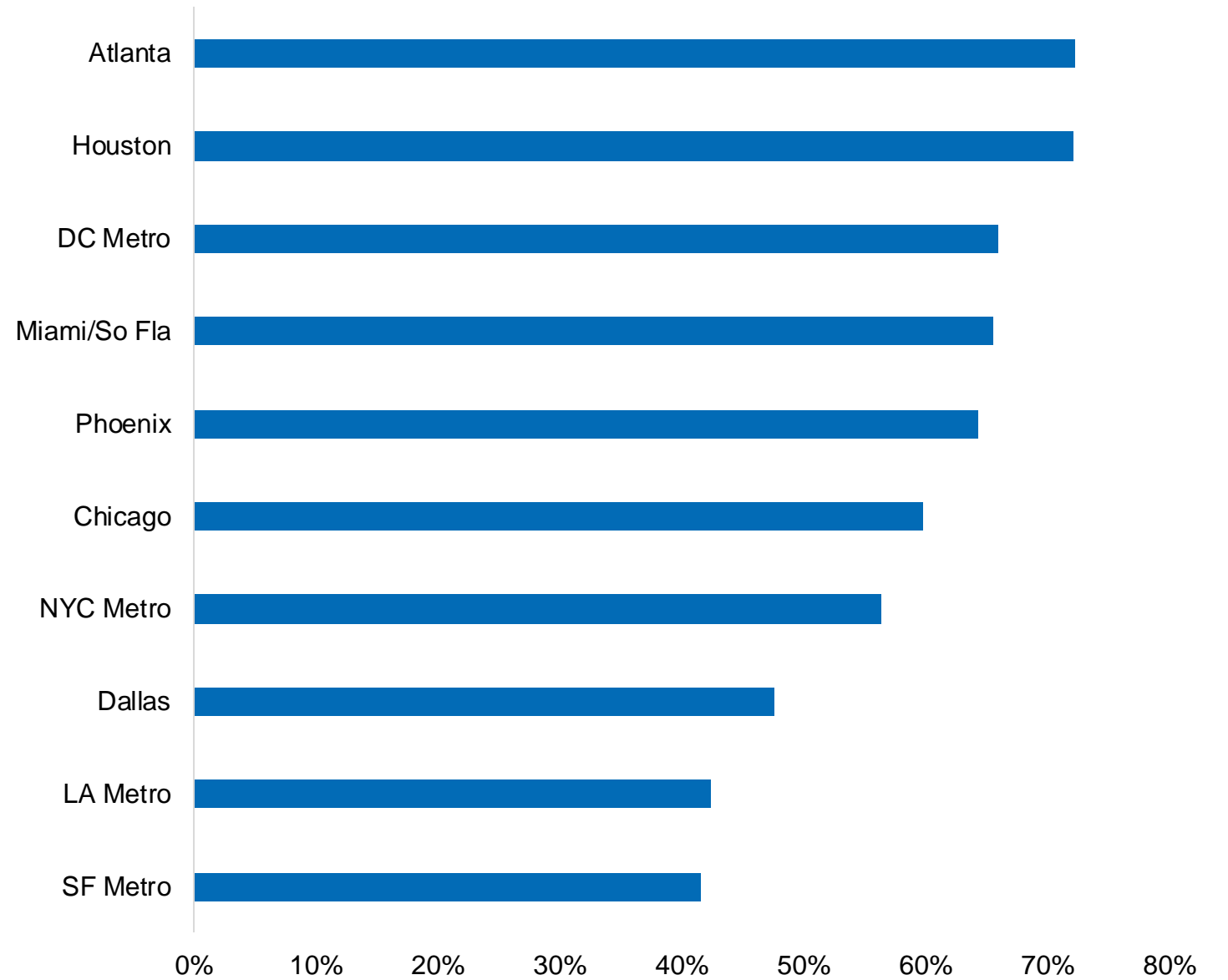
# Atlanta and Houston Retail Investment Volumes Align with 10-Year Averages

While activity remains sluggish in many primary markets, Atlanta and Houston have surpassed 70% of their ten-year average retail investment sales volume year-to-date.

Top Ten Markets, Retail Investment Volume in Billions of \$, YTD



Top Ten Markets, 2024 Share of 10-Yr Average Annual Retail Volume, YTD

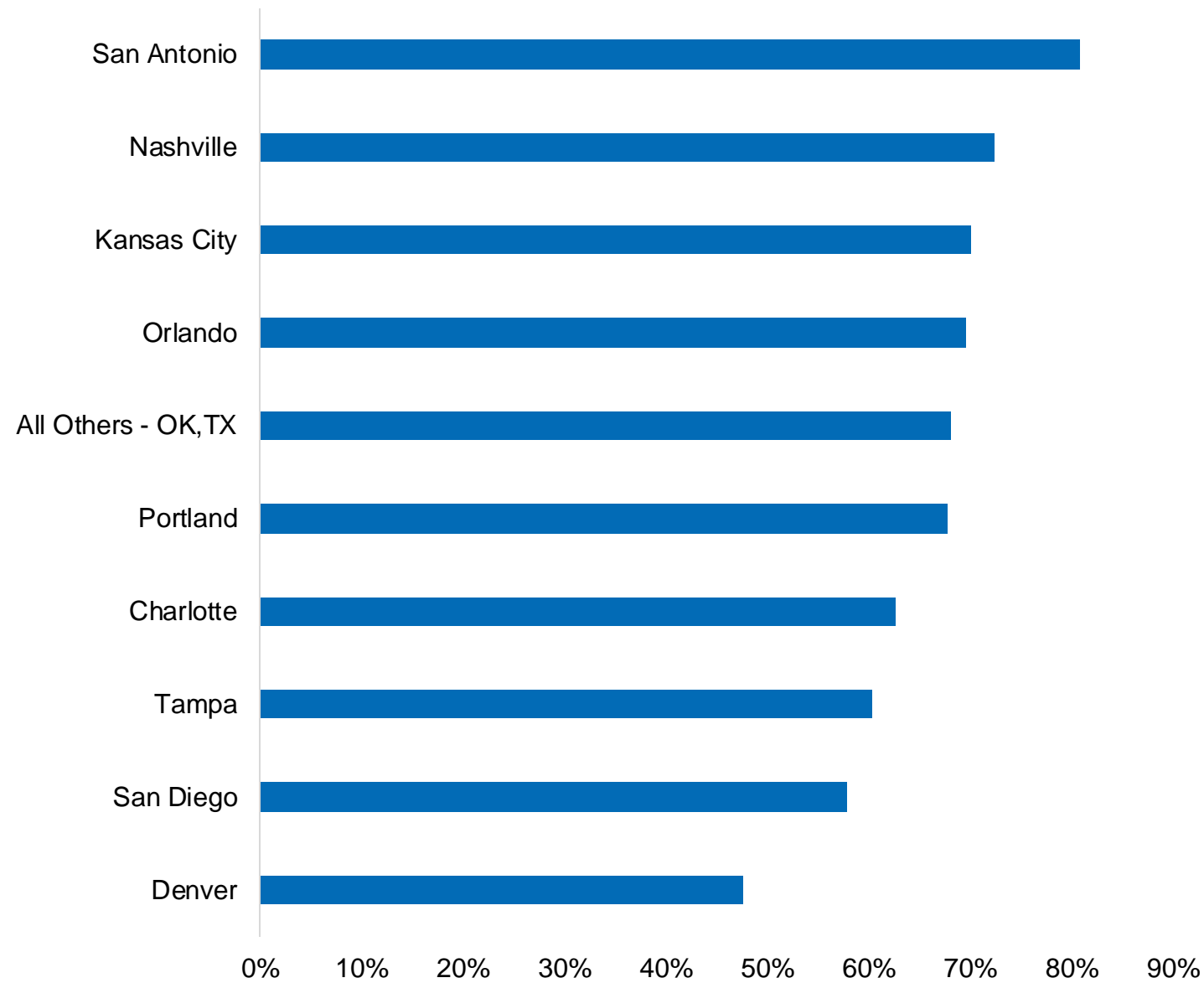


Source: MCI Real Capital Analytics, 3Q 2024.

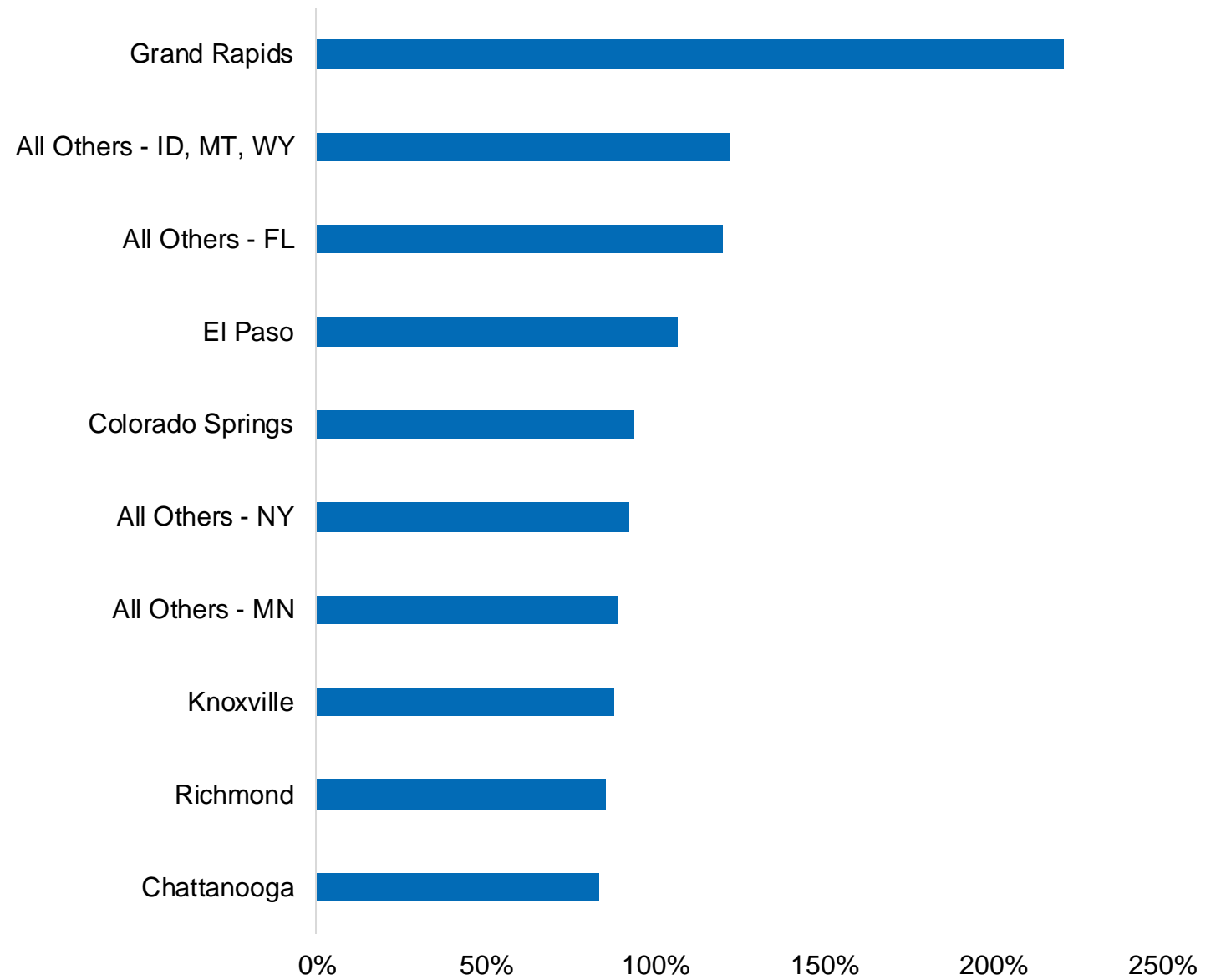
# Smaller and Tertiary Markets See Investment Surge

Interest in retail assets in smaller markets is high. Among markets with annual retail investment sales volumes between \$500 million and \$1.5 billion, San Antonio has surpassed 80% of its 10-year average. In markets averaging \$100 to \$500 million annually, Grand Rapids and El Paso have already exceeded their 10-year average, as have clusters of smaller markets in Idaho, Montana, Wyoming, and Florida.

Mid-Size Markets, 2024 Share of 10-Yr Average Annual Retail Volume, YTD



Tertiary Markets, 2024 Share of 10-Yr Average Annual Retail Volume, YTD



Note: In the case of this study, mid-size markets refers to markets with an annual average of over \$500 million in retail investment volume and below \$1.5 billion. Tertiary markets refers to markets with an annual average between \$100 and \$500 million in retail investment volume. Source: MCI Real Capital Analytics, 3Q 2024.



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