

Retail Right-sizing Fuel Strong Sector Performance

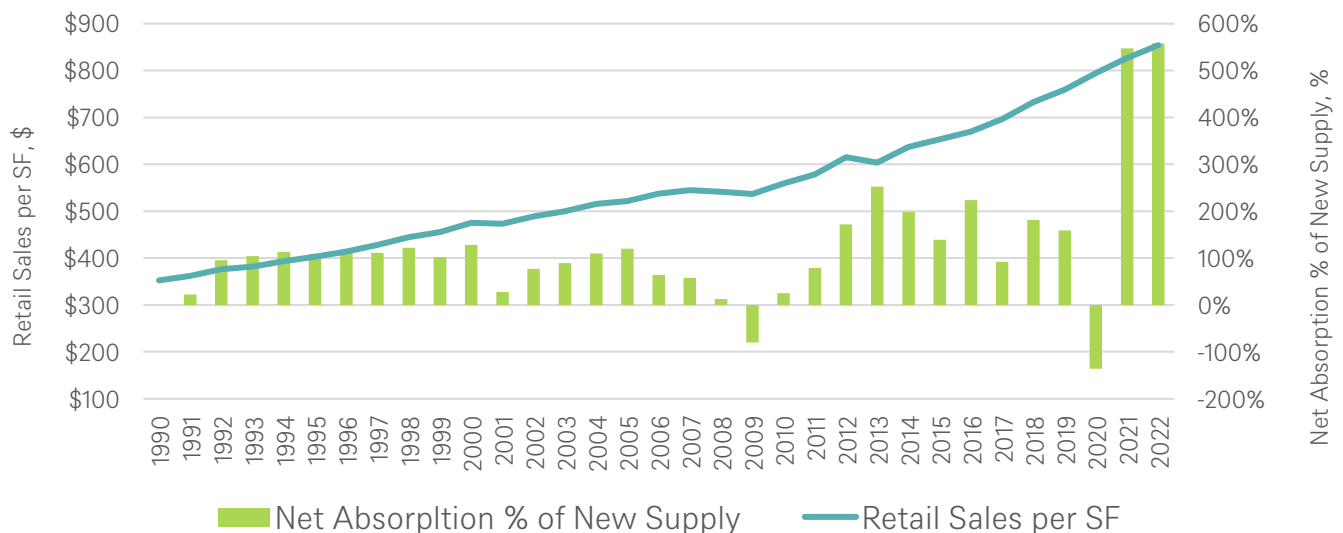
While capital continues to favor industrial and residential investments, the retail sector’s robust performance has been barely noticed. The demand for neighborhood and community center retail space reached a new high in 2021 and 2022 as net absorption totaled more than 5.5 times the delivered space. The availability rate has fallen below 7%—their lowest level in at least 17 years.¹

Moreover, so far in 2023, the U.S. economy has proved quite resilient despite high inflation and interest rates, fostering healthy consumer confidence and retail sales. Households have been able to withstand the high inflation without pulling back on overall spending and the near-term headwinds have not deterred retailers from seeking out the value that physical retail locations provide in terms of profitability and customer acquisition.

The sheer scarcity of prime retail space will limit retailer occupancy growth, and should the economy slip into a

moderate recession, consumers will likely cut back on spending. Nevertheless, retail real estate fundamentals will remain tight, driven by the neighborhood and community (N&C) segment. Given that they are largely service-oriented, N&C centers are relatively insulated from e-commerce, and to the extent that they dispense goods (e.g., groceries), they can help to fulfill online orders (i.e., delivery or pickup from store). Because they are typically located in or near residential areas, they may also capture more sales as people move to suburbs and spend more of their workweek at home. Given tight fundamentals, continuous retail sales should lead to strong rent performance and drive robust sector returns as yields remain at comparatively attractive levels.

Annual Retail Sales per Square Foot Relative to Tenant Demand



Source: U.S. Census, CBRE-EA. As of July 2023.

1. Source: CBRE-EA. As of July 2023.

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