

4Q24

The U.S. Retail Market: Conditions & Trends



Market Observations



Economic Conditions and Retail Demand Drivers

- Consumers are resilient. Despite an uncertain economic climate, retail sales continued to surprise on the positive side, with a solid holiday season and a rebound in the automobile and parts sales coupled with the furniture and home furnishings categories.
- Wage growth remained higher than inflation for the seventh consecutive quarter, growing to a 122-bps spread on a year-over-year basis.



Capital Markets

- U.S. retail capital market volume remained well below 2021 to 2023 levels, with just \$49.5 billion traded in 2024.
- Corporate buyers quietly expand their reach. Across the globe, corporations are expanding their real estate holdings, in both high-street and suburban districts. This was especially true in the U.S. during 2024, which saw a 56% increase in corporate buyer volume.
- Fundamentals remain strong despite an increase in store closures. Commercial real estate rent indices show that retail has outperformed the field, with rent gains on a month-over-month, quarter-over-quarter, and year-over-year basis. Retail remains the only CRE type to show gains across all three time periods.



Leasing Market Fundamentals

- The U.S. retail availability rate held steady at 5.0% for the fifth consecutive quarter. Lease volume remained low at just 32 million sq. ft. in 4Q, which is 28% below the ten-year average.
- Urban retail has been challenged since the pandemic, but a deeper look at the data shows that small-shop space remains extremely tight, with an availability rate of just 2.6%.
- Just 6.7 million sq. ft. of new retail space was delivered in 4Q 2024. After an upward revision of 3Q 2024 figures, this is a new all-time low.



Outlook

- Although store closures are expected to outpace openings in the early quarters of 2025, the lack of new development and the strong fundamentals of prime centers will allow the retail market to navigate the bumps.
- The baseline forecast suggests that asking rent growth will remain around 2% for 2025, and a slight increase to 2.3% for 2026.
- The waiting game of capital markets investment appears to be over, as interest in multi-tenant retail assets is growing, with the \$14.4 billion in retail trades during 4Q making it the highest of the year and is 6.4% higher than 4Q 2023. Activity is expected to pick up in 2025.

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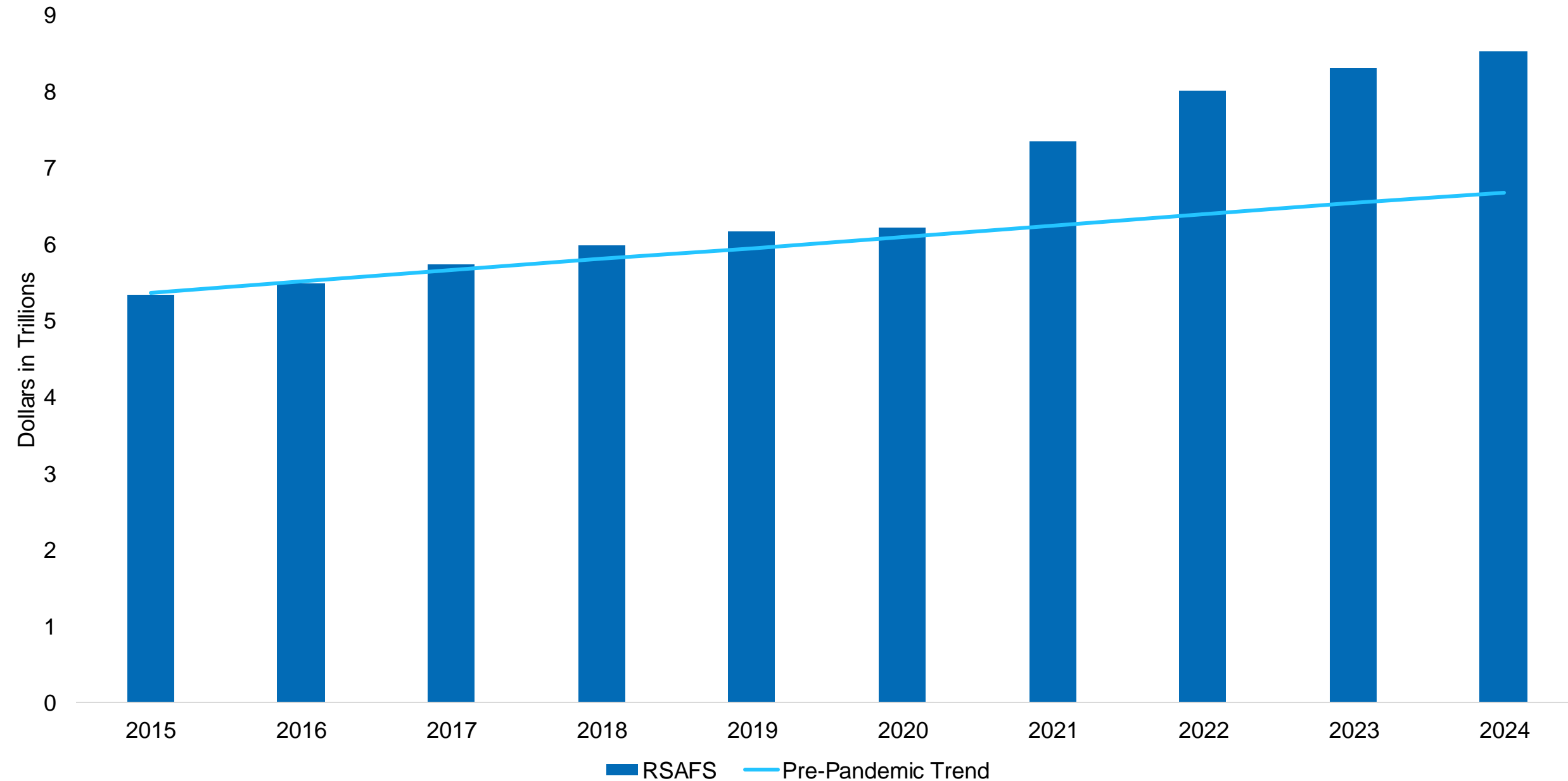
Economic Conditions & Demand Drivers



Retail Sales Grew 2.6% YoY in 2024

Retail trade and food service sales totaled over \$8.5 trillion in 2024. On a year-over-year basis, this represented a gain of 2.6% over 2023, falling in range of the National Retail Federation's forecast of 2.5-3.5% growth for 2024, and keeping sales on the ten-year trendline.

Nominal Retail Trade and Food Service Sales by Year



Source: U.S. Census Bureau, January 2025.

Retail Sales Growth Remained Below Long-Term Average, But Trended Positive in 4Q

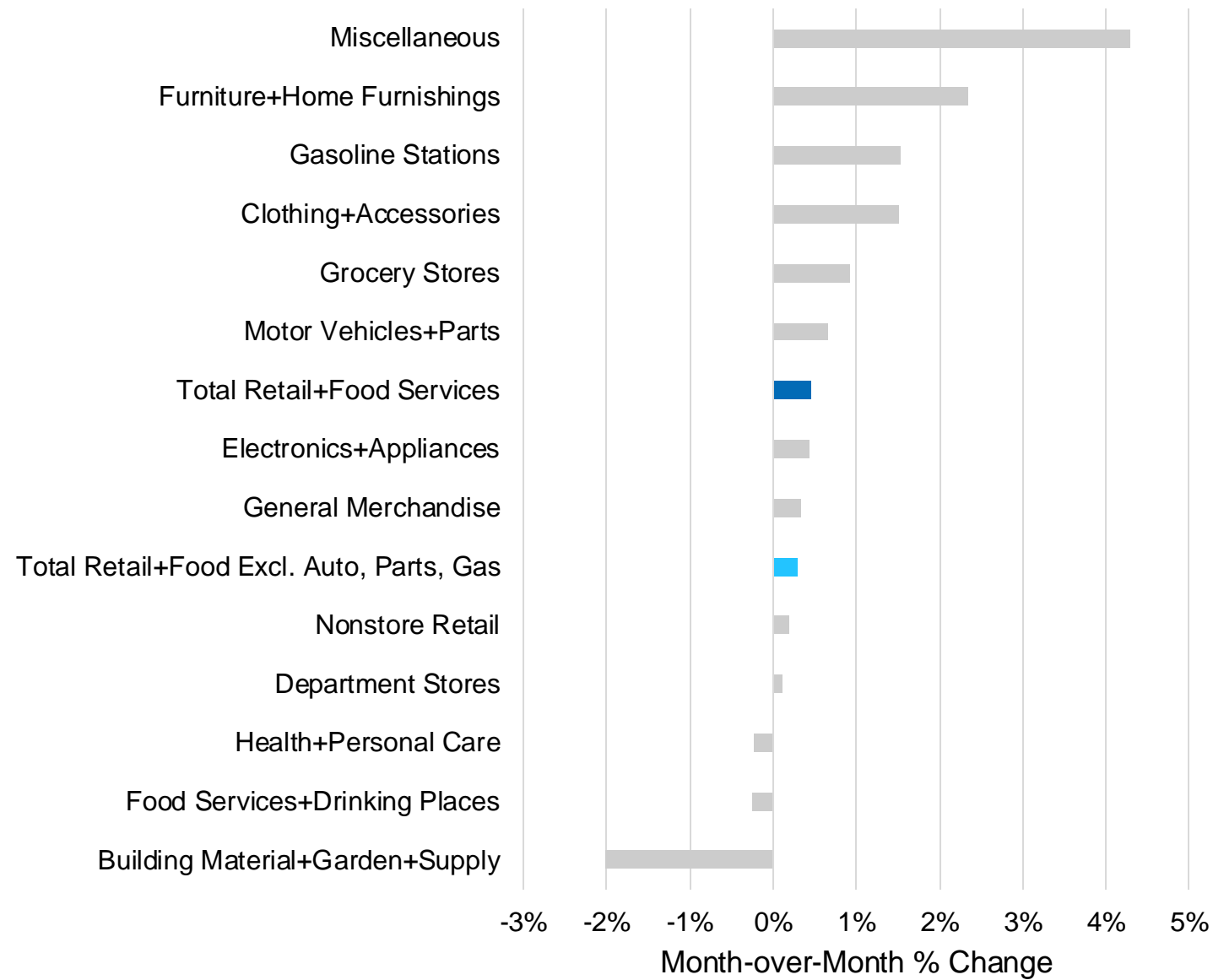


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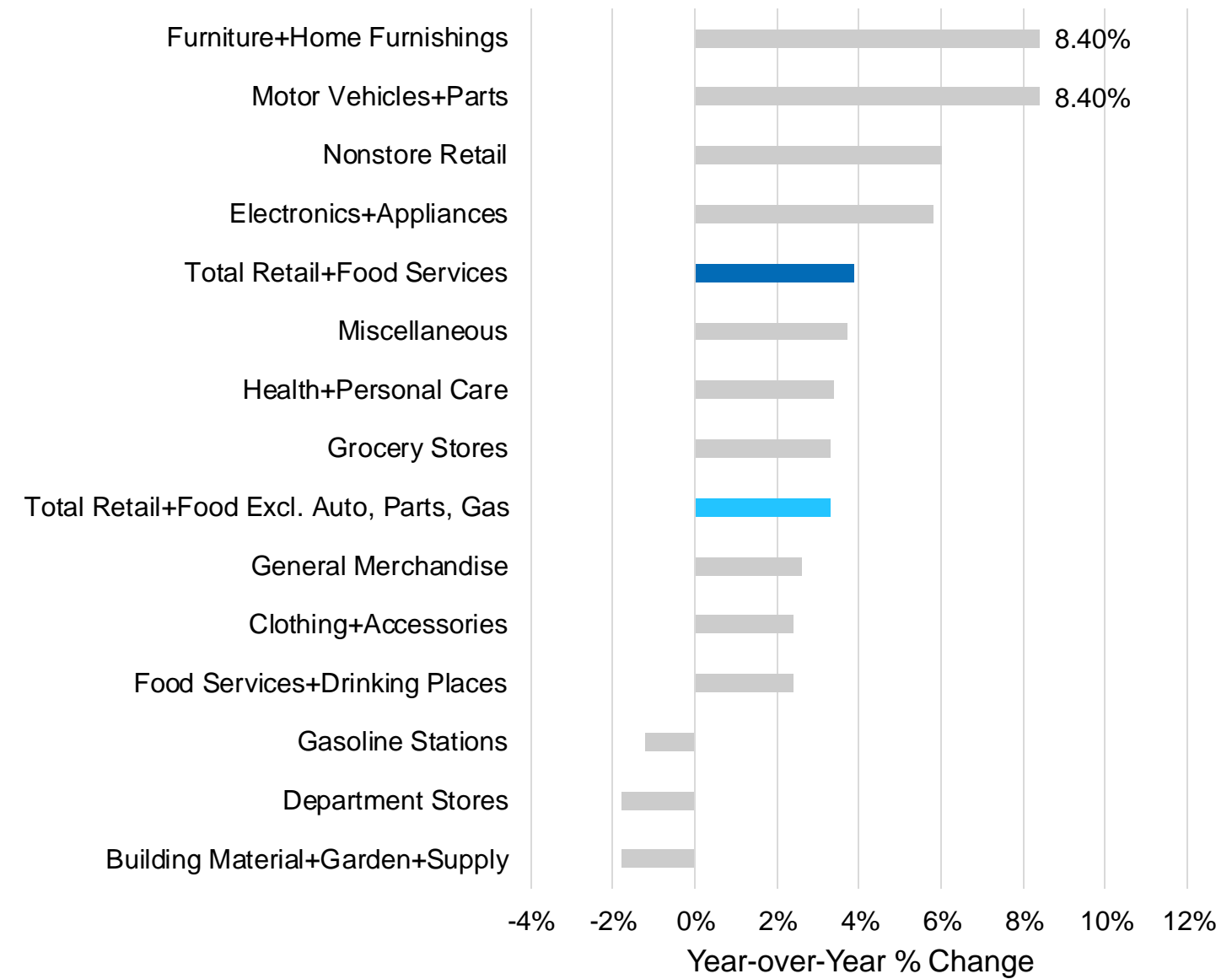
Miscellaneous Retail and Furniture End the Year Strong

Miscellaneous retail, a category which includes pet supply retailers and secondhand retailers, ended the year strong, posting sequential growth of 4.3%. "Motor Vehicles+Parts" tied with "Furniture+Home Furnishings" as the highest categories in year-over-year growth, at 8.4%. Non-store retail increased 6.0% year-over-year, fueled by value-driven consumers capitalizing on deflation in online prices, a subcategory of non-store retail. "Building materials + Garden + Supply" store types continued to struggle, down 2% sequentially and 1.8% year-over-year.

Retail Sales by Store Type



Retail Sales by Store Type



Source: U.S. Census Bureau, January 2025.

Despite Economic Uncertainty, Wage Growth Outpaces Inflation

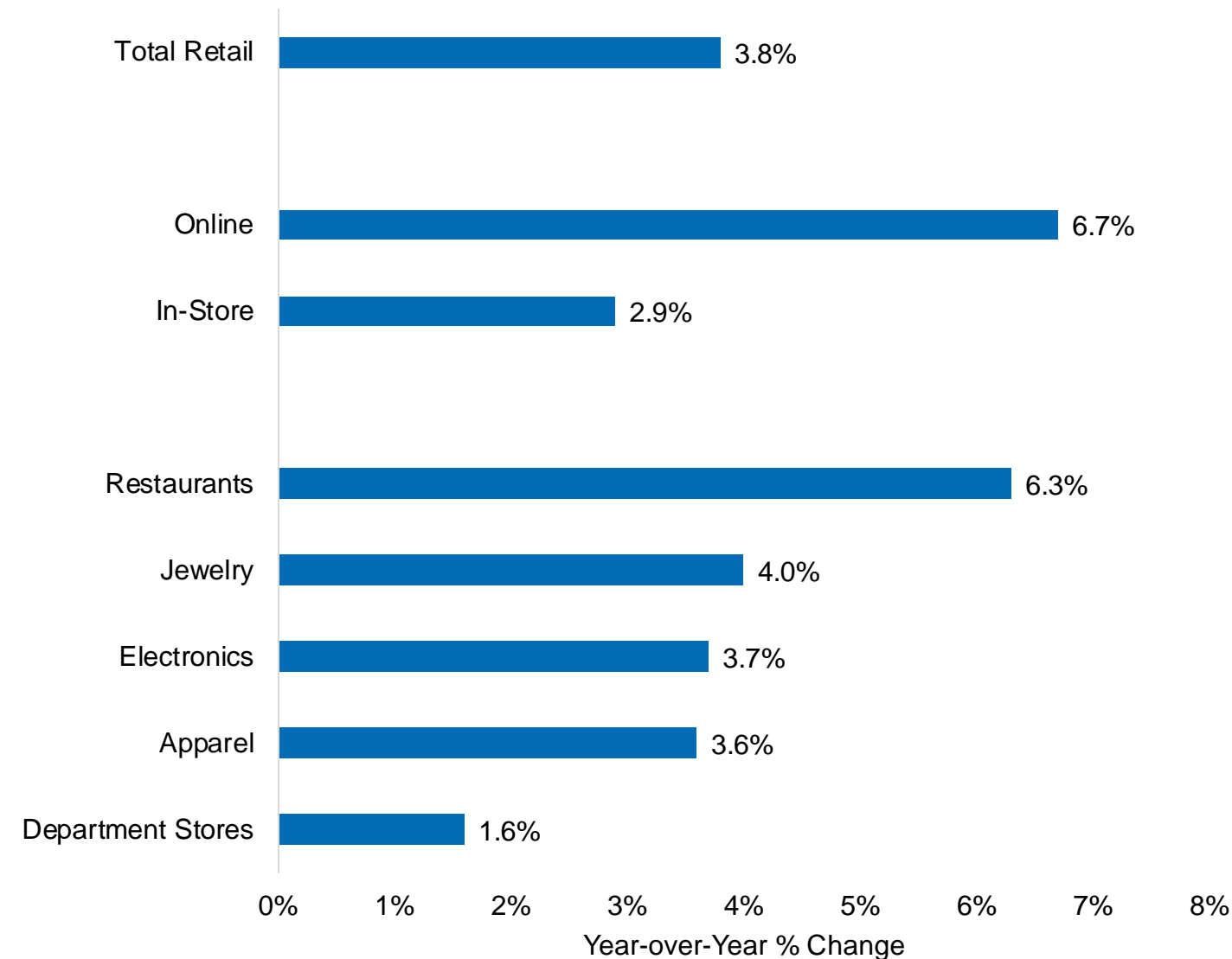


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A Successful 2024 Holiday Season

Compared to 2023 holiday sales, total retail sales increased 3.8% in 2024, with online shopping orders outpacing in-store sales. Other trends from 2024's Cyber Week include an increase in Buy Now Pay Later transactions, social media influencers driving sales growth and a continued deflation in online prices of goods.

Holiday Sales, 2024 vs. 2023



Holiday/Cyber Week Trends

- **Mobile shopping continues to rise**, accounting for an estimated 54.5% of online holiday season sales. On Cyber Monday, that share increased to 57%, marking a 13.3% increase from 2023.
- **Buy Now Pay Later (BNPL) spending** reached \$991.2 million, a 5.5% increase from 2023, with mobile devices driving over 75% of these transactions on Cyber Monday.
- **Social influencers** drove over 20% of Cyber Monday revenue, a 6.8% increase from 2023, converting shoppers to buyers at more than six times the rate of standard social media.
- **Online prices have continued their downward trend**, with Adobe reporting 26 consecutive months of deflation, including a 2.9% year-over-year decline in October 2024.

Note: Holiday Season refers to November 1 through December 24.
Source: Mastercard Spending Pulse, Adobe Analytics.

Restaurants Grow, Hold Share



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Post Election, Republican Consumer Sentiment Has Soared



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Expectations For Future Economic Conditions Also Shift



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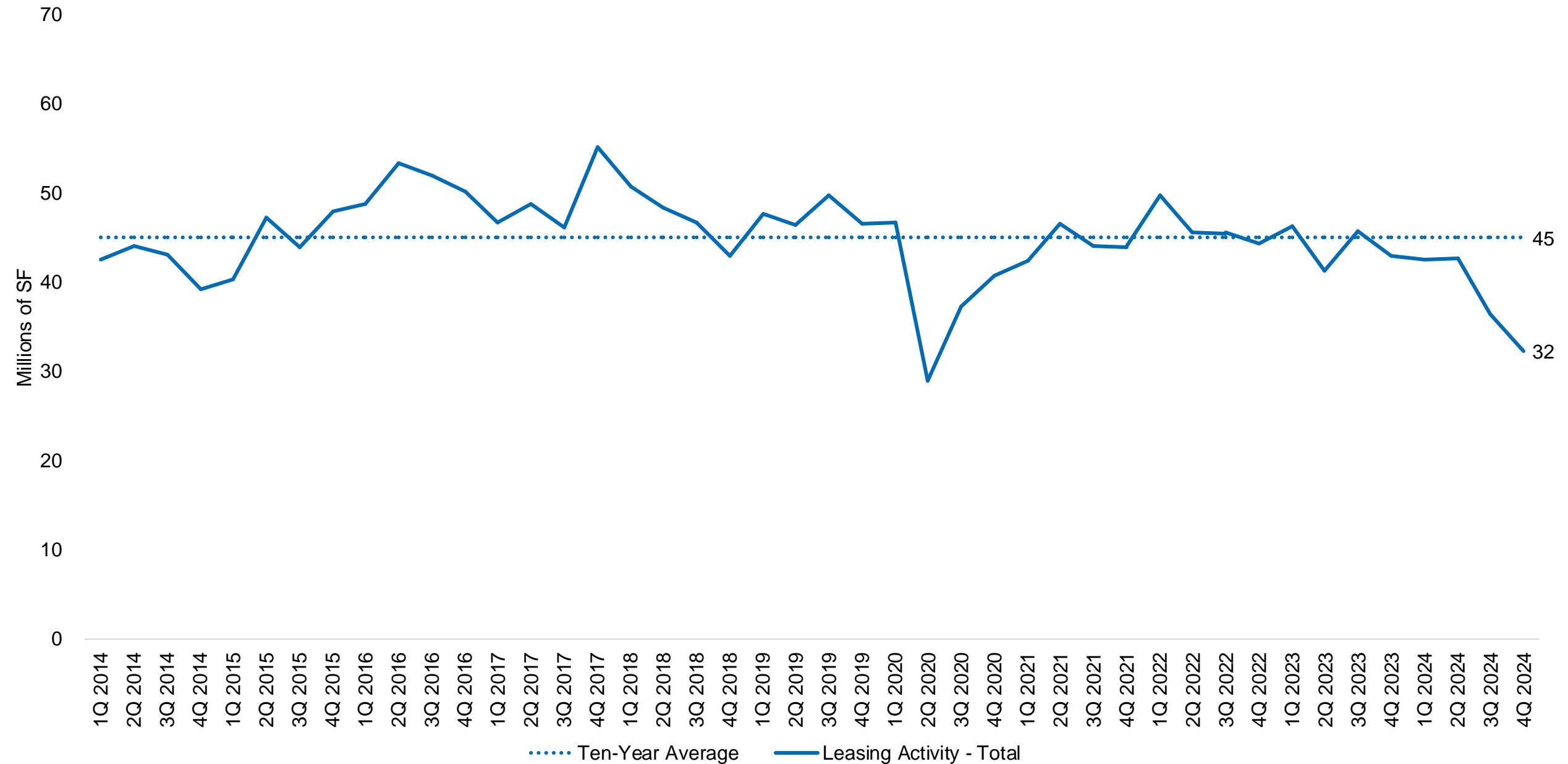
Leasing Market Fundamentals



Lease Activity Remains Low; Lack of Prime Space Likely Culprit

The 32.3 million square feet of retail space leased in the fourth quarter of 2024 was 28% below the ten-year average, marking the lowest quarterly total since the second quarter of 2020. For the year, 2024 closed with 153.9 million square feet leased, narrowly surpassing 2020 and ranking as the third-lowest annual total since 2010.

Quarterly Leasing Activity vs. Ten Year Average for Retail CRE

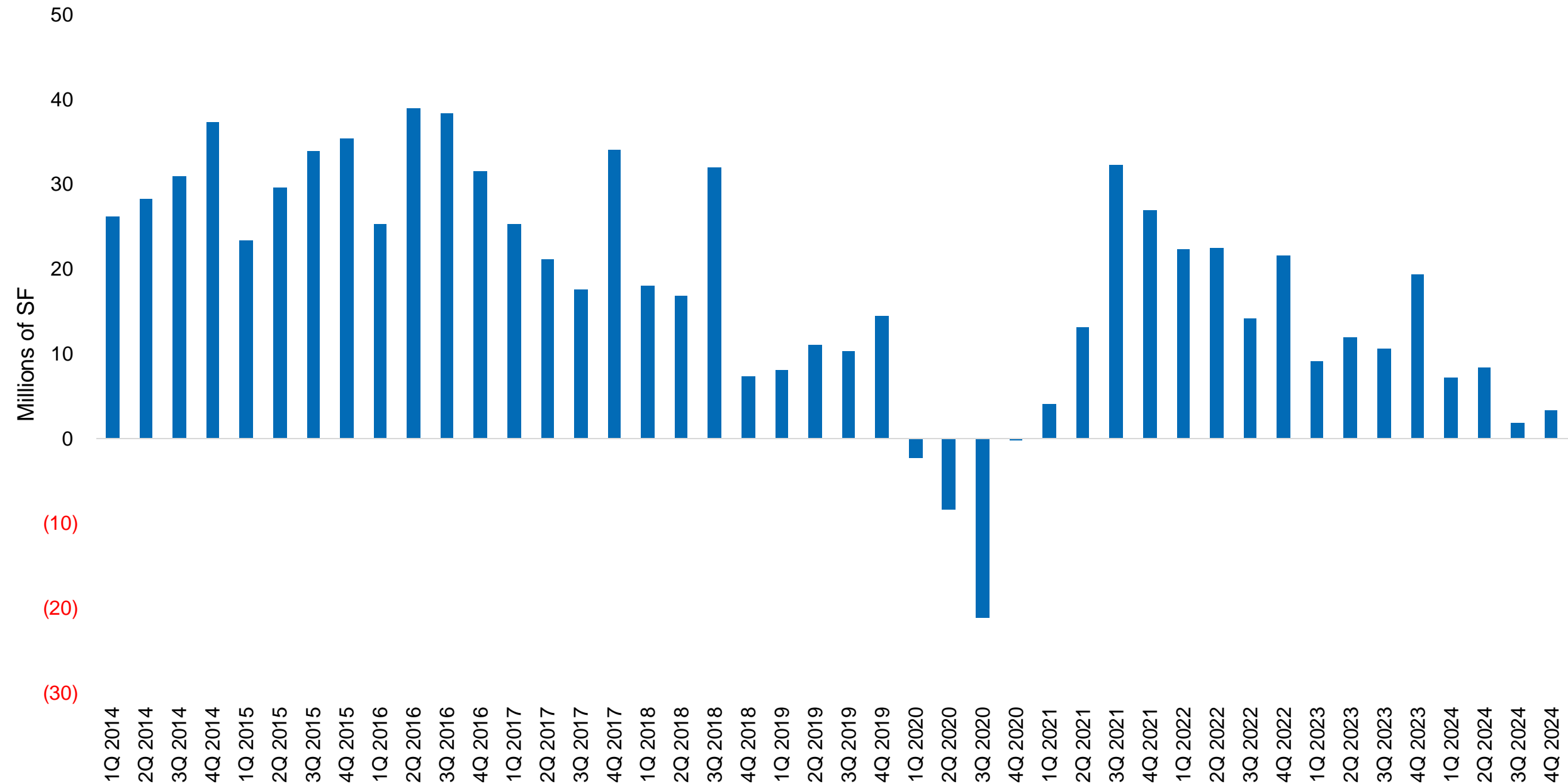


Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 4Q 2024.

Retail Absorption Picked up in 4Q

Retail net absorption grew in 4Q 2024, although it remains muted in comparison to 2021 to 2023 totals. Retailers continue to shed underperforming stores and are very precise on where they choose to open new stores.

Retail Net Absorption by Quarter



Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 4Q 2024.

Top Ten U.S. Markets in Retail Absorption, Quarterly and Annually

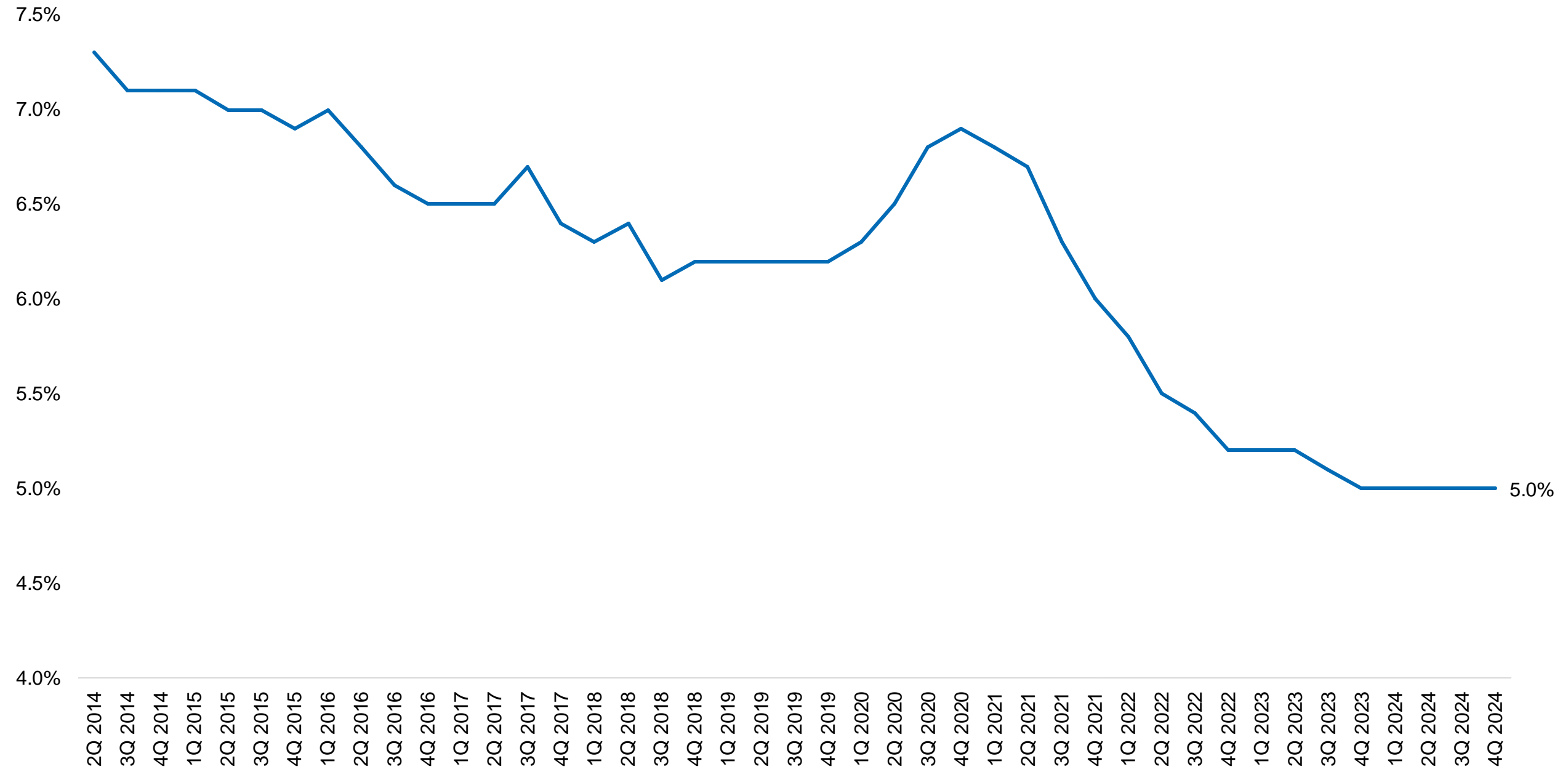


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Retail Availability Remains Stable

Despite a slowdown in activity, the retail availability rate remains steady at 5.0%, supported by consistent demand for prime retail space combined with limited 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, 4Q 2024.

Few Deliveries + Consistent Demand = Record Low Availability



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Retail Demand For New Space Outpaces Other CRE Sectors

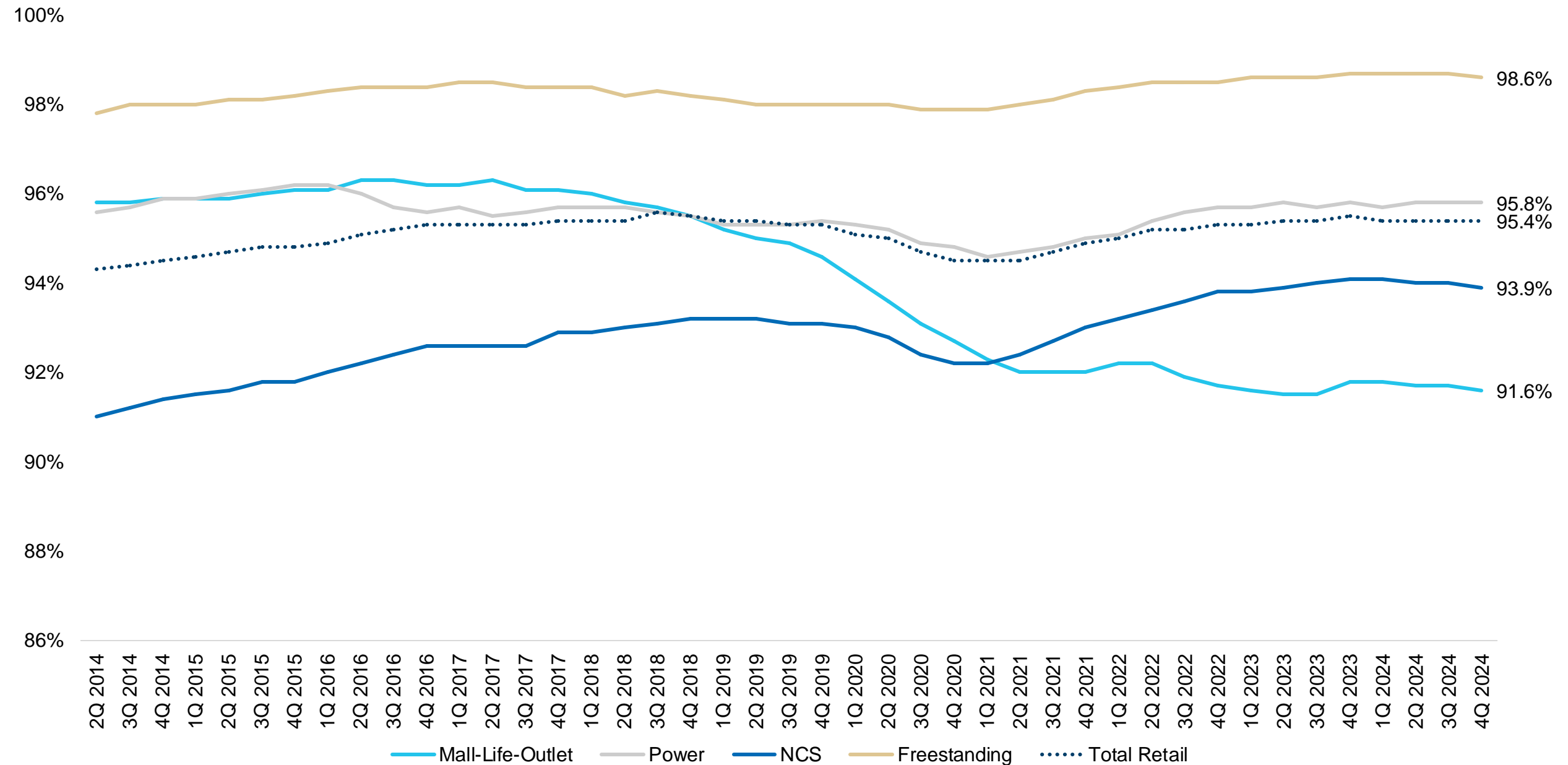


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Retail Ends Year Over 95% Occupied

Retail occupancy remained strong, closing 2024 at 95.4%. Freestanding retail continues to lead with the highest occupancy, though its rate dipped 10 bps to 98.6%. Neighborhood, community and strip centers, which reached a ten-year high of 94.1% in the fourth quarter of 2023 and first quarter of 2024, have softened slightly to 93.9%. Malls, lifestyle centers and outlet centers remain the most challenged, with occupancy at 91.6%.

Historical Occupancy for Retail CRE, by Format



Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 4Q 2024.

Class A Malls Boast a Strong Occupancy, While the Rest Continue to Fade

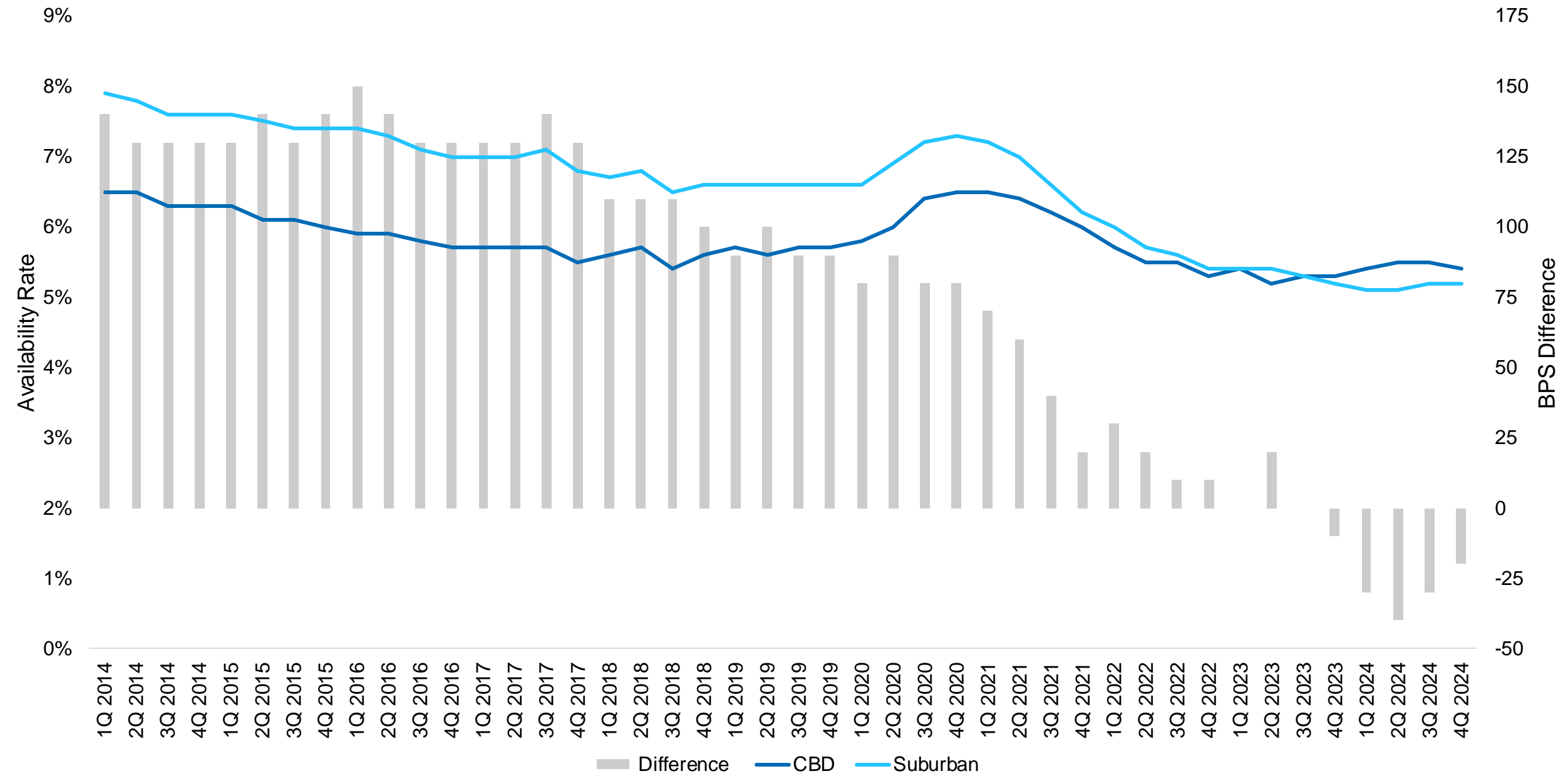


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Suburban vs. Urban

While the suburban vs. urban trend persists, the availability rate spread appears to have stabilized, showing a steady decline over the past three quarters.

Suburban vs. Urban Retail



Source: CoStar, 4Q 2024.

Distinct Urban Retail Trends

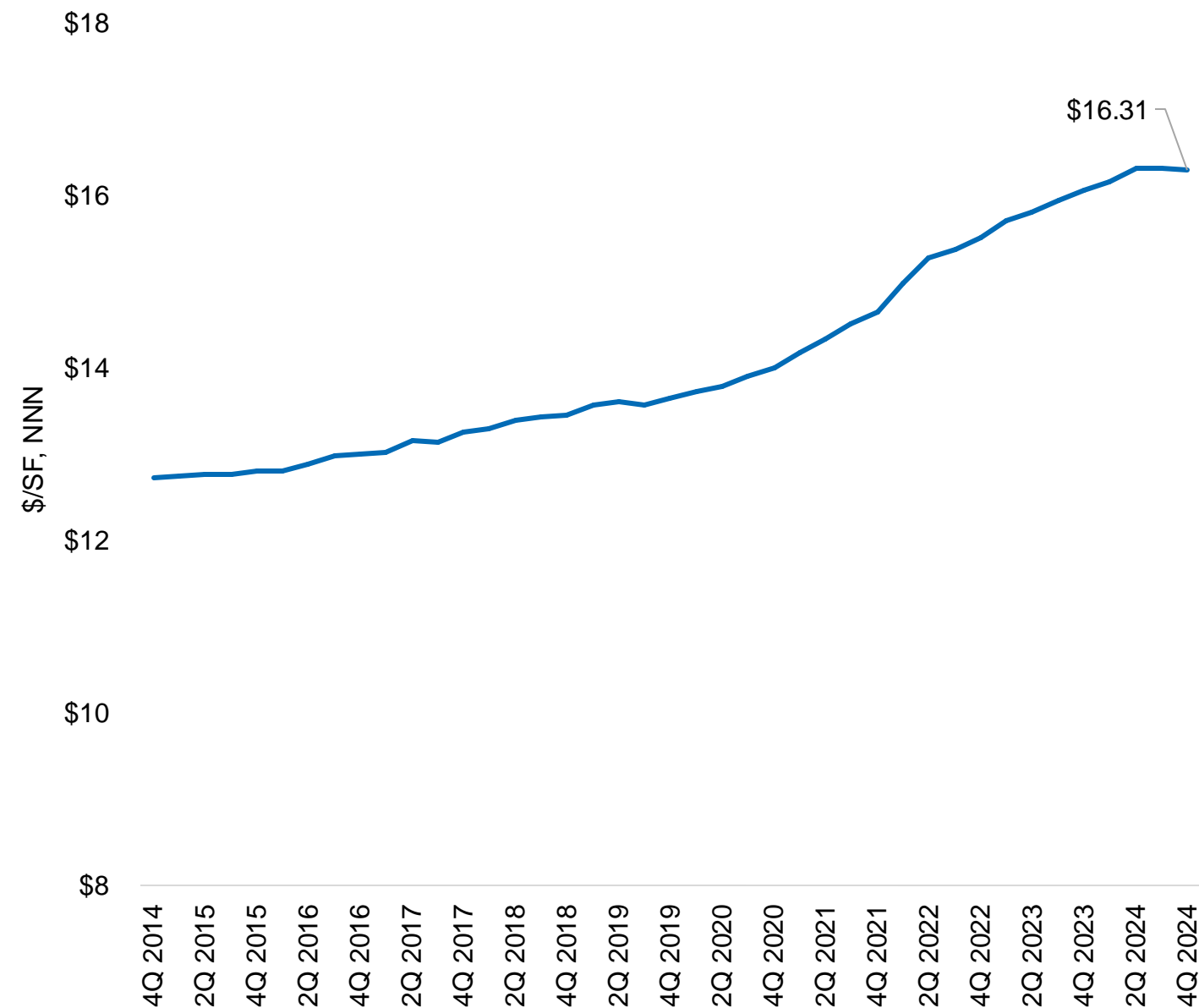


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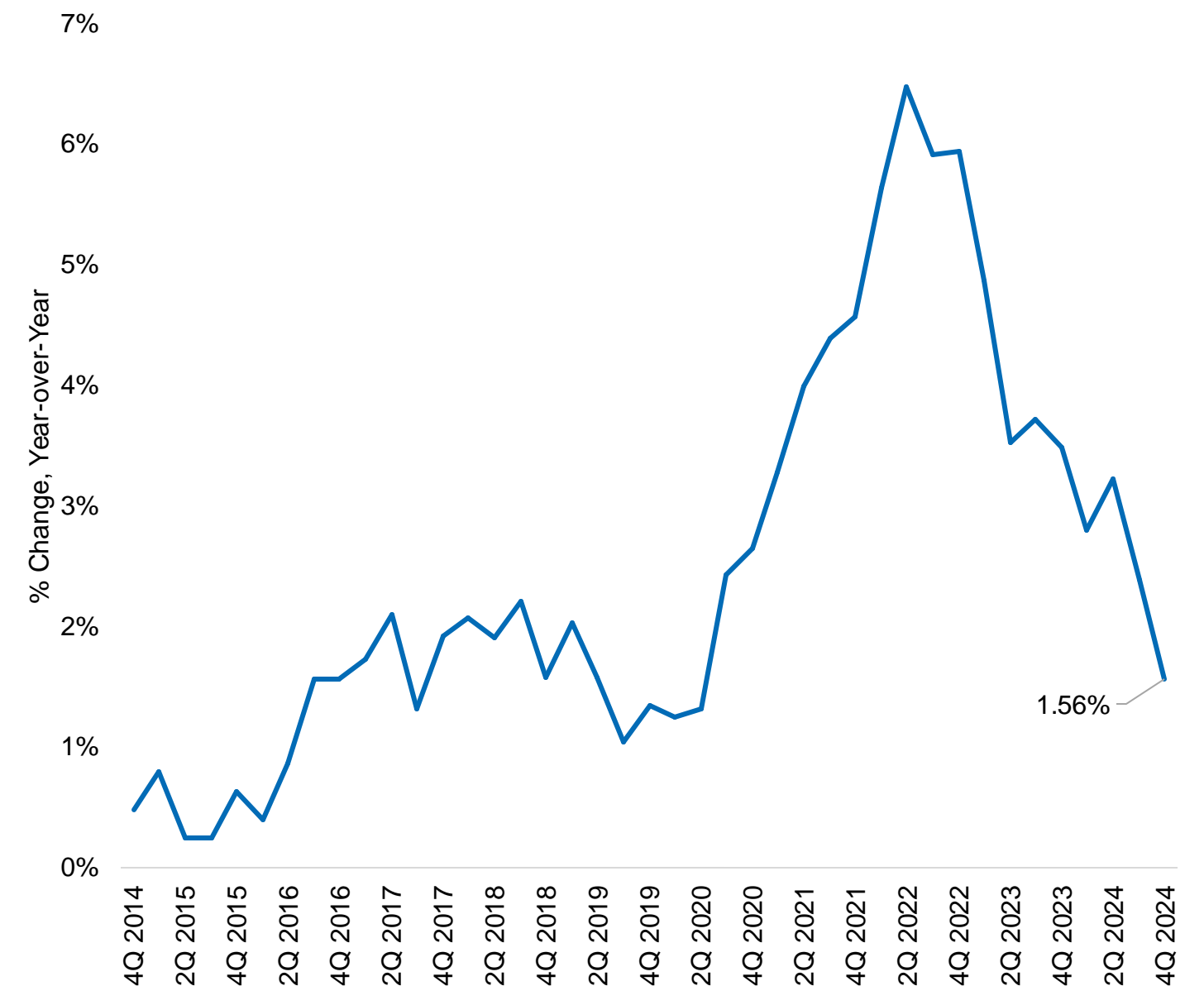
Asking Rents Level Off ; Inferior Sites Hitting Market

The closure of stores in underperforming markets and trade areas is likely contributing to the decline in asking rates. With retail space in prime centers remaining scarce, lower rents in less desirable locations carry greater influence in determining average asking rates.

Asking Retail CRE Rents



Asking Retail CRE Rent



Source: CoStar, 4Q 2024.

Asking Rents vs. Available Space by Retail Format



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Class A Malls have Outperformed in 2024

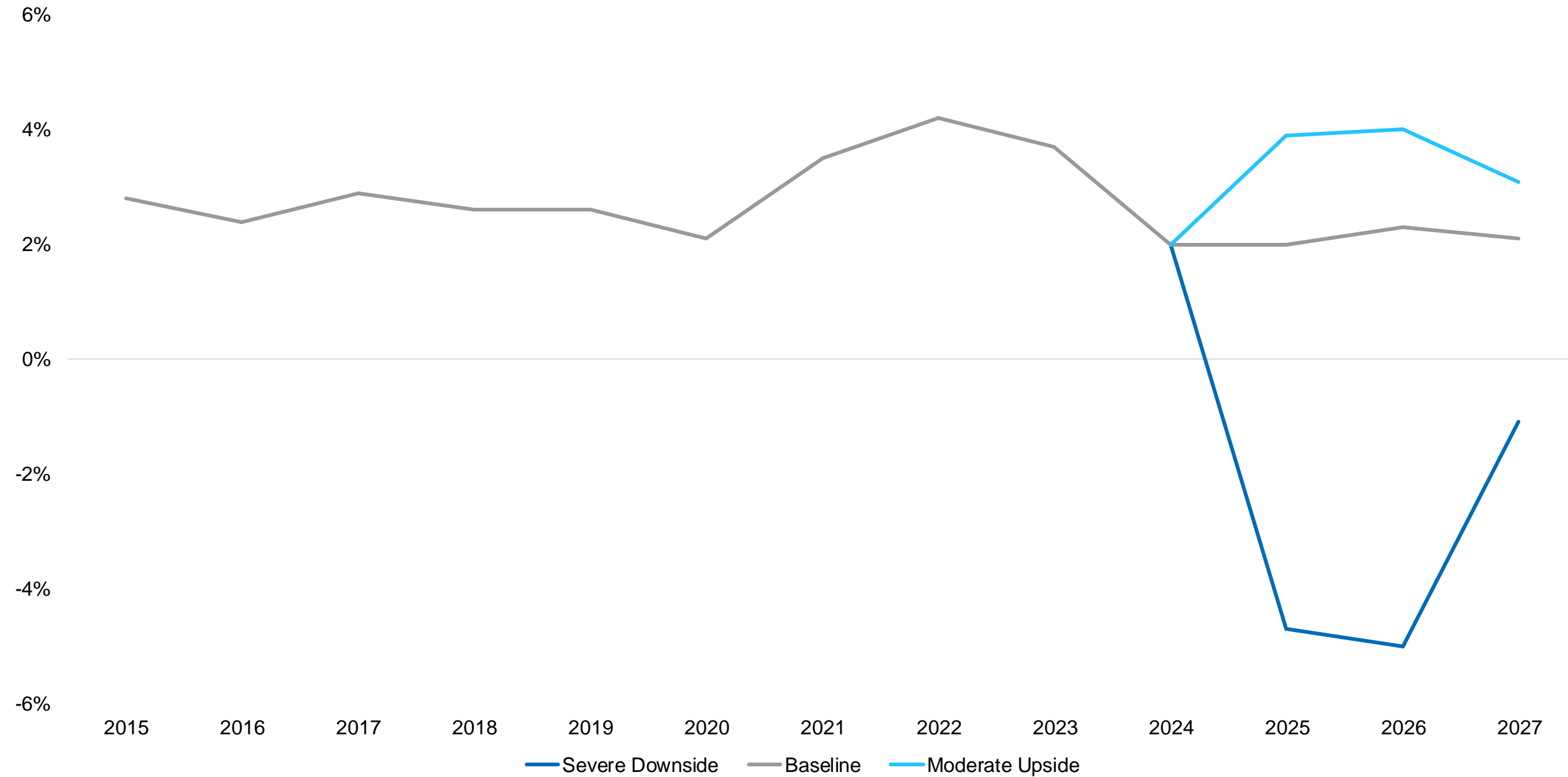


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Severe Downside Scenario Portends Store Closures; Baseline Remains Solid

Retail rents in tracked markets closed 2024 with a 2.0% growth rate. The baseline forecast projects similar rent growth through 2025, 2026 and 2027. The upside forecast anticipates a 3.9% growth rate in 2025, while the severe downside scenario presents a far more challenging outlook.

Retail Rent Growth Forecast by Economic Scenario



Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 4Q 2024.

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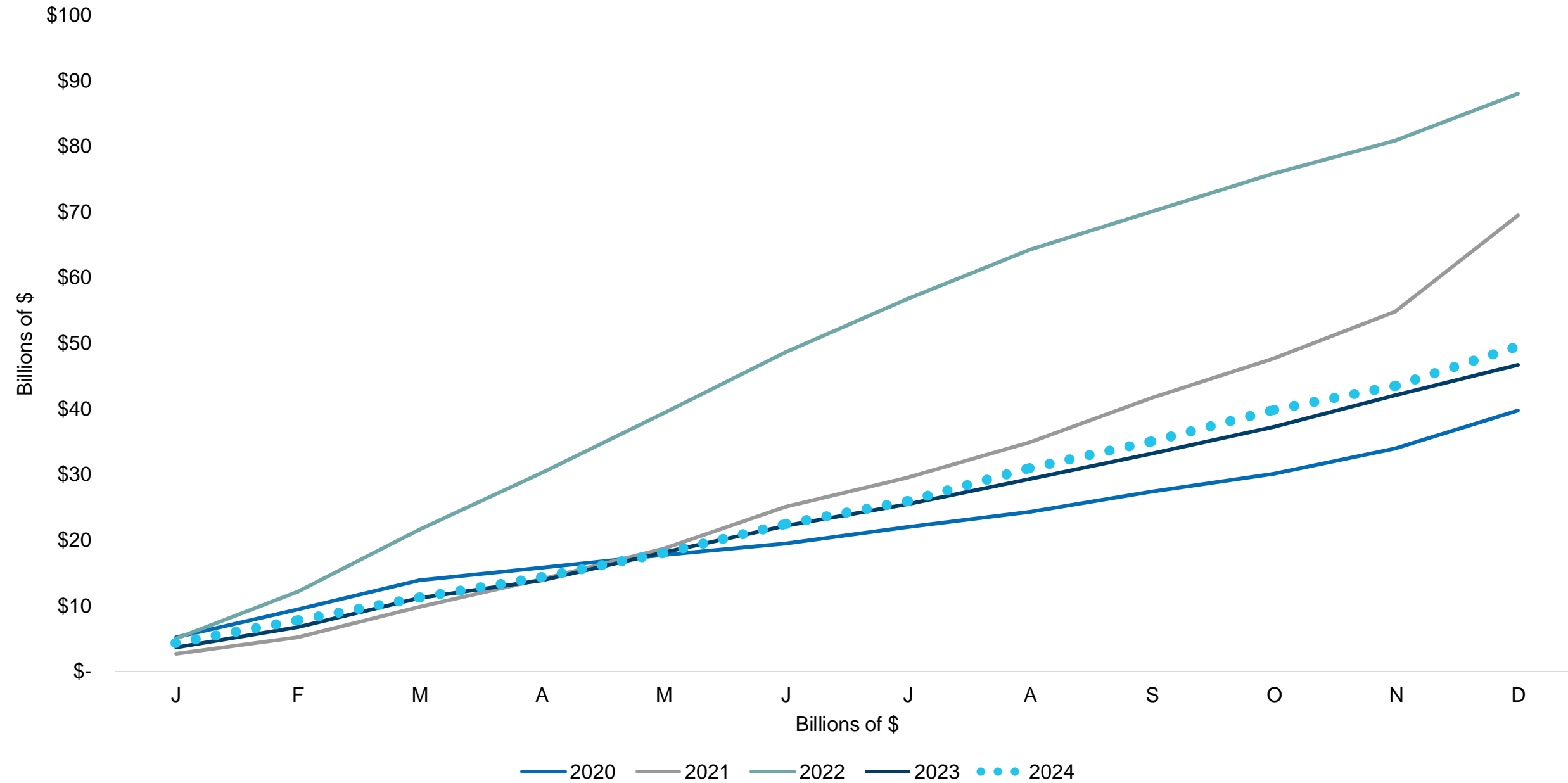
Capital Markets



Retail Investment Sales Volume Muted

The market closed 2024 at a pace similar to 2023, remaining muted overall. However, in-market sentiment indicates growing interest in retail real estate compared to prior years. Activity is anticipated to pick up in 2025.

Investment Volume for Retail CRE

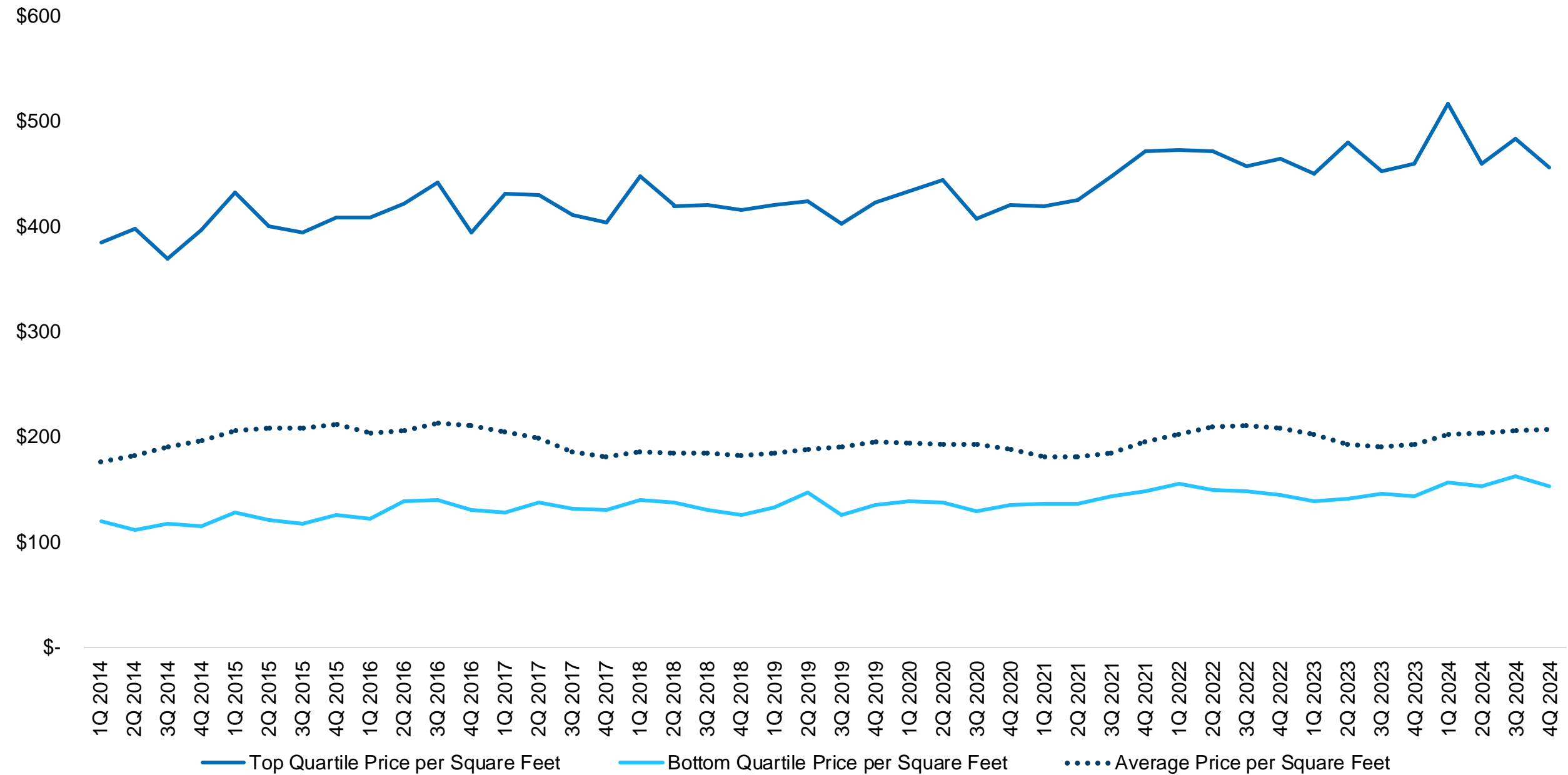


Source: MSCI Real Capital Analytics, January 2025.

Price Per SF Has Remained Level For A Decade

Discount investors in the retail market have driven down the average price per square foot, even as high-end prices have gradually increased, holding steady in the mid-\$400s per square foot over the past few years.

Price Per SF for Retail CRE

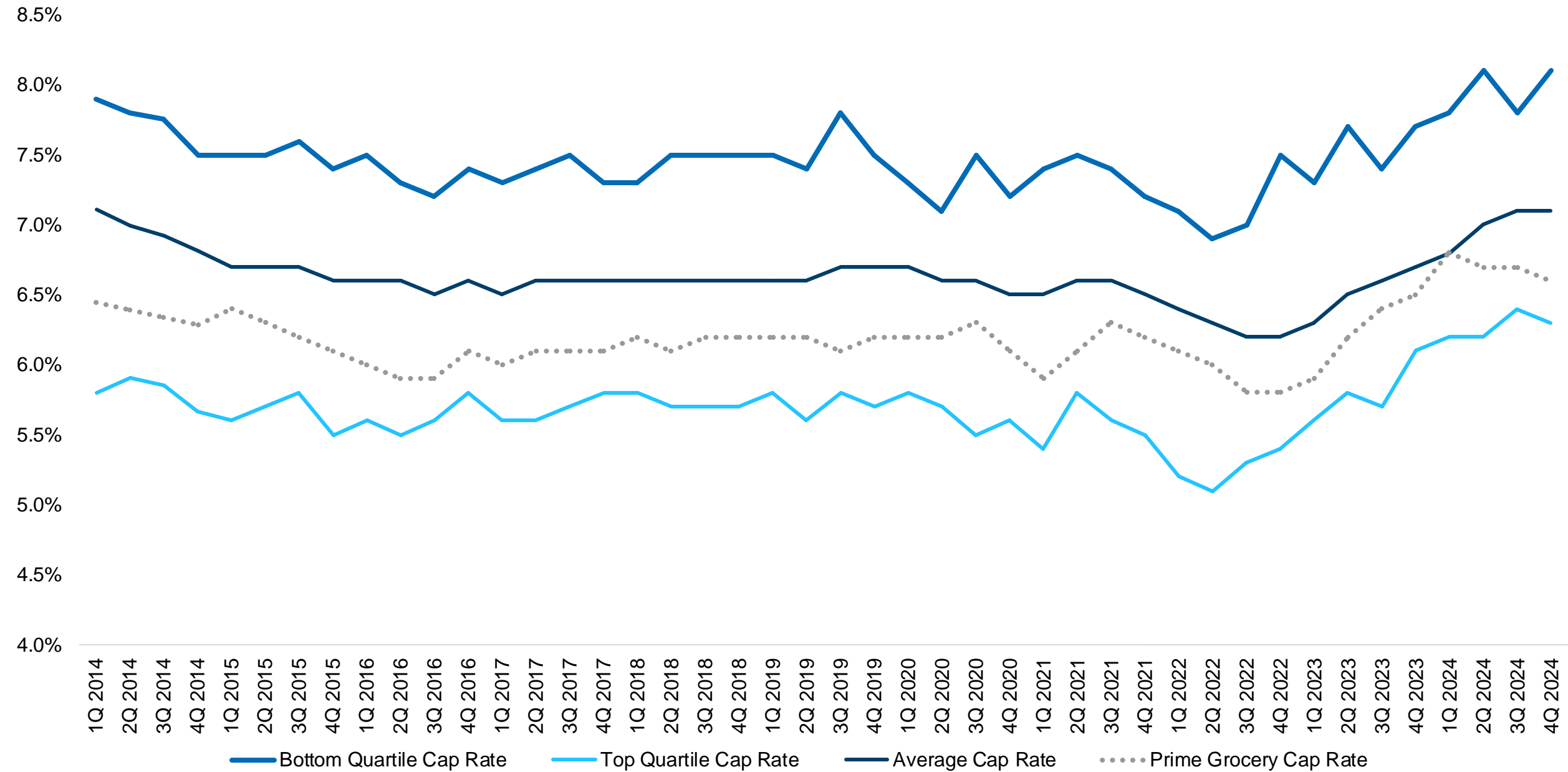


Source: MSCI Real Capital Analytics, January 2025.

Cap Rates Rise; Prime Grocery-Anchored Rates Fall

Retail cap rates increased across most categories, except for prime grocery-anchored centers, which saw a 10-basis-point decline. Additionally, the top quartile of cap rates dropped 40 basis points.

Cap Rates for Retail CRE

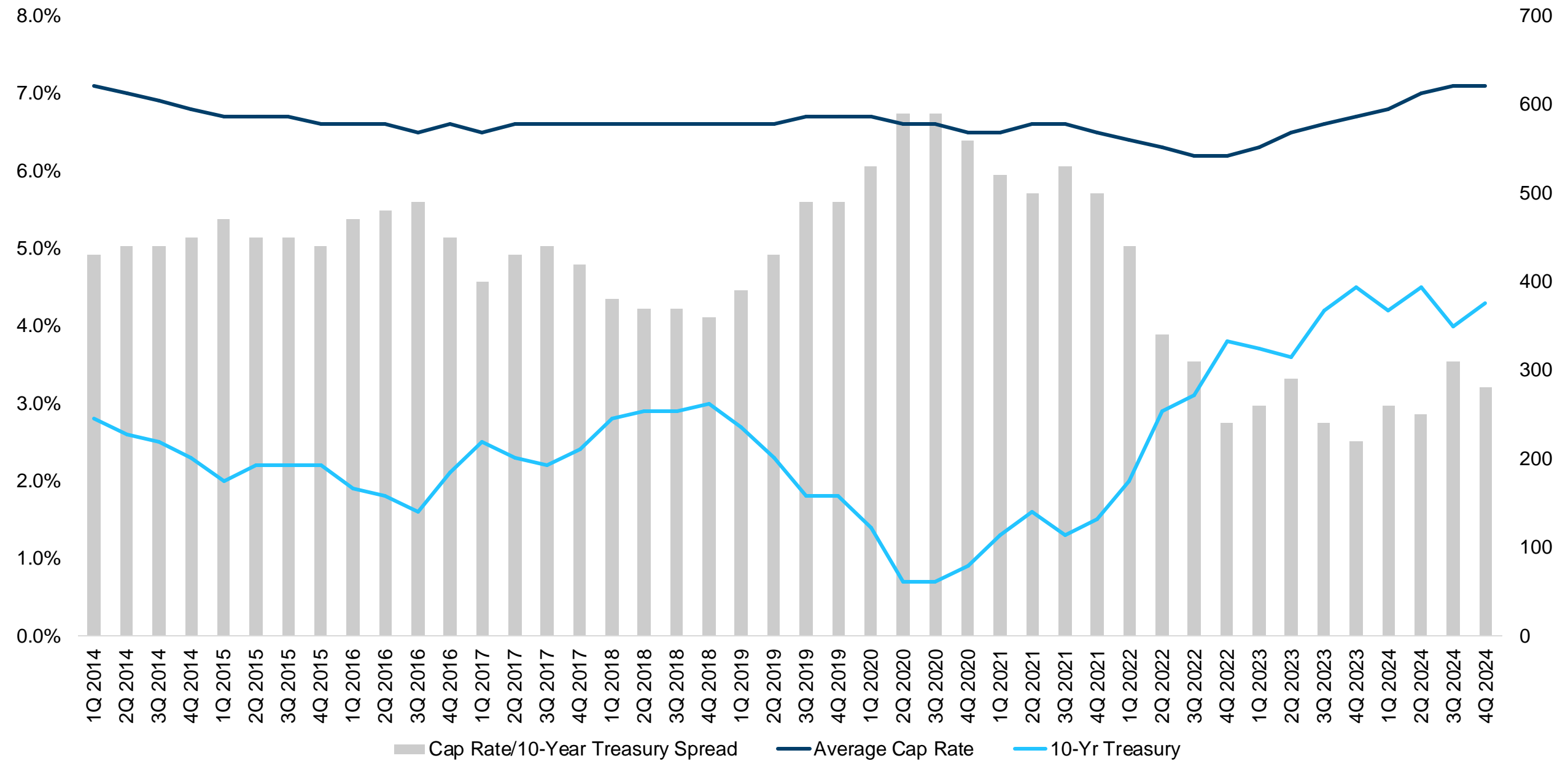


Source: MSCI Real Capital Analytics, January 2025.

Spread Between Prime Grocery Cap Rates & 10-Year Treasury Continues to Dance

The gap from 2014 to 2021 disappeared in 2022 but has been slowly widening since.

Cap Rates for Retail CRE



Source: MSCI Real Capital Analytics, January 2025.

Retail REIT Continued to Exhibit Strength in 2024



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Retail Outperforms CRE Values Index in 2024

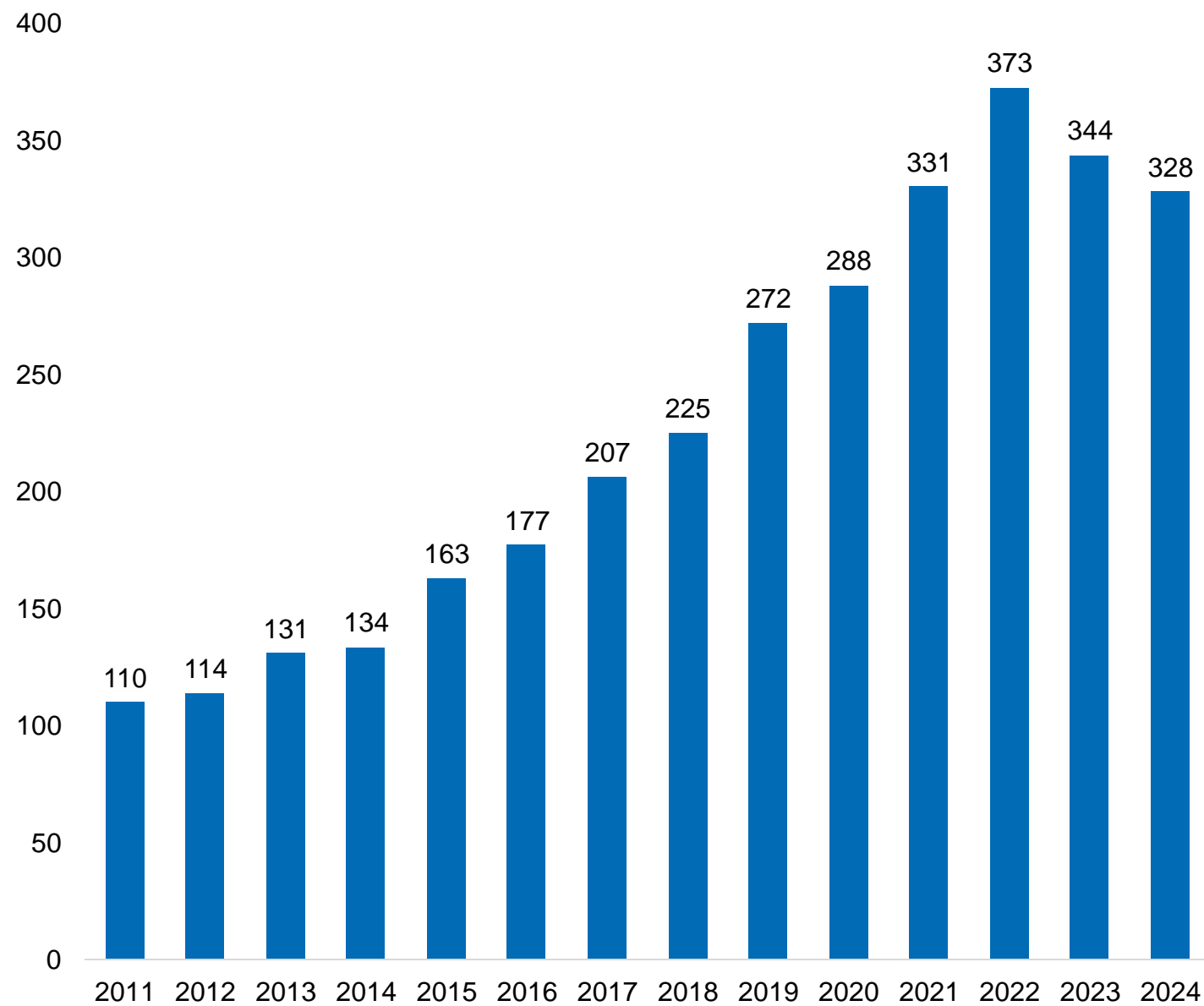


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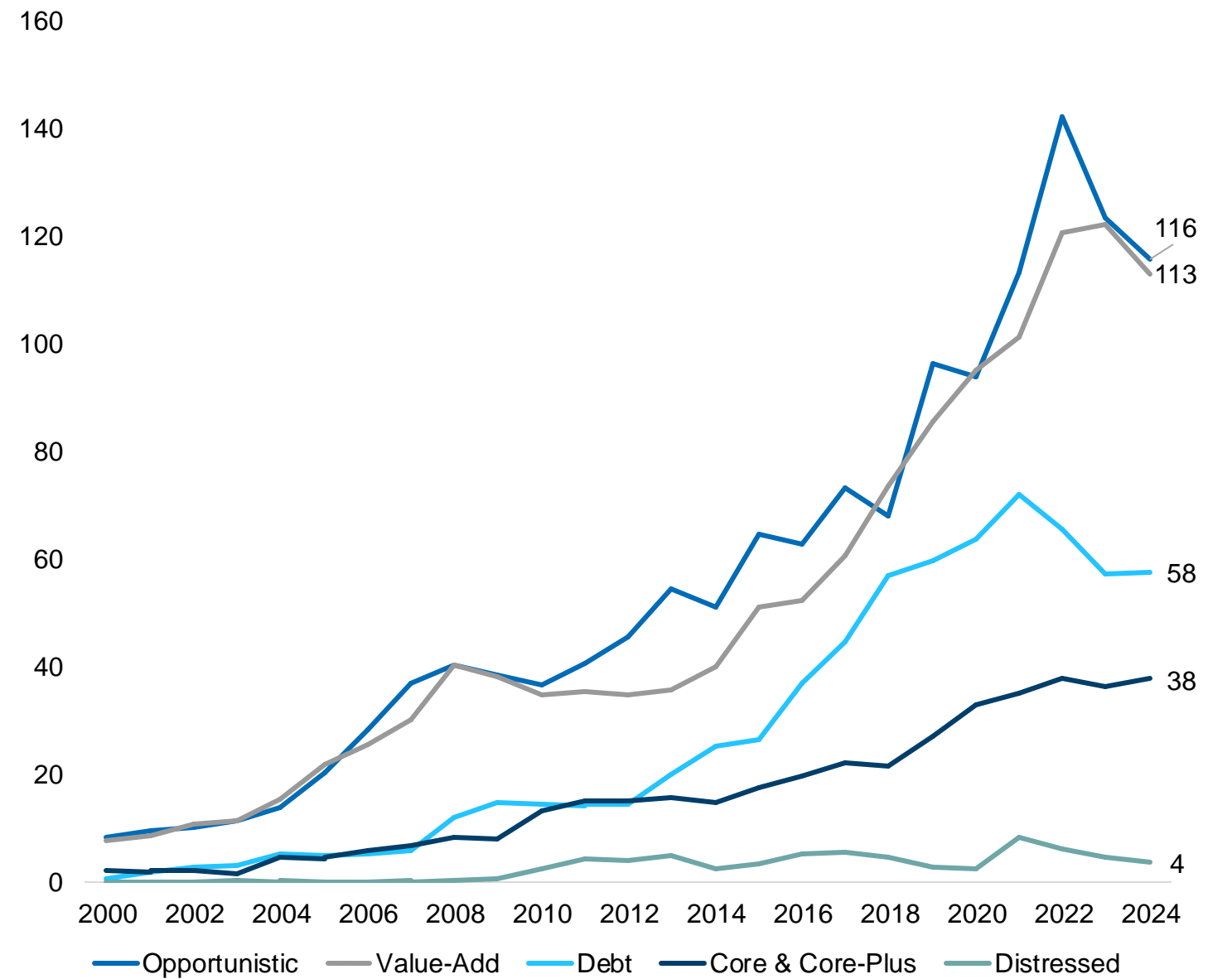
Private Equity Dry Powder Has Declined From 2022 Peak, But Still Elevated Overall

Dry powder at closed-end funds is 12% below its December 2022 peak, reflecting declines in dry powder at value-add, opportunistic funds and Debt Funds. Core and value add dry powder has remained relatively flat, while distressed and opportunistic has seen significant decreases, though unrealized values in those strategies increased 6% over the last two years.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



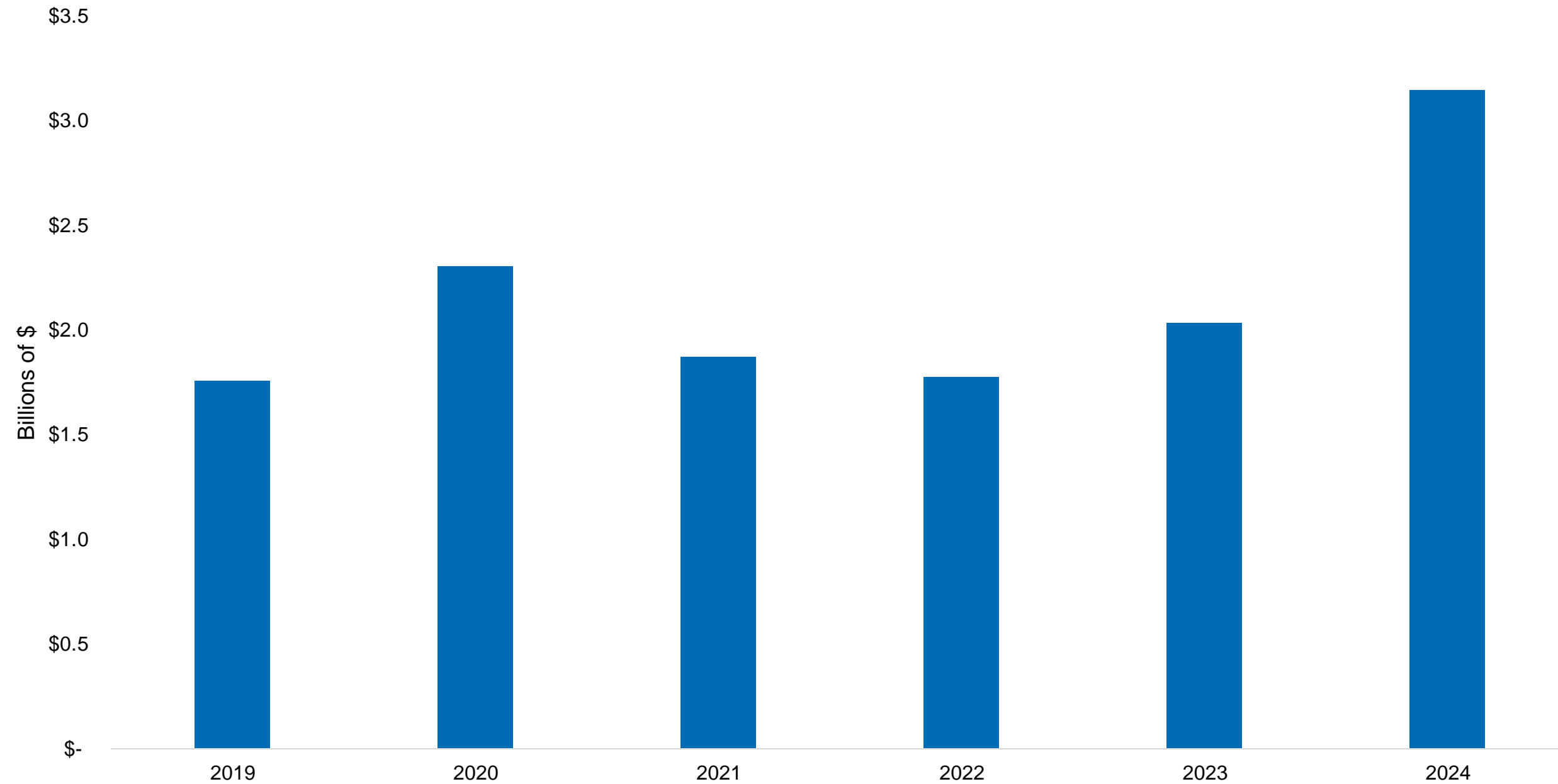
Source: Newmark Research, Preqin as of 1/30/2025

*Not shown: Fund of funds, co-investments, and secondaries strategies

Corporate Buyers Accelerate U.S. Retail Space Purchases

Corporations are increasingly acquiring retail real estate in the U.S., establishing a permanent presence on key shopping streets and securing valuable suburban properties to enhance their multichannel capabilities.

U.S. Retail Investment Sales by Corporate Buyers



Note: Considers corporate buyers of retail real estate through individual property or portfolio sales.
Source: MSCI Real Capital Analytics, January 2025.

Top Corporate Buyers Of U.S. Retail Real Estate



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