

State of the U.S. Retail Market



Summary

+5.9M

NET ABSORPTION
Q2 2023

4.8%

RETAIL AVAILABILITY
Q2 2023

+2.1%

Y-O-Y RENT GROWTH
Q2 2023

Positive absorption has kept the U.S. retail market tight, although negative performance within power centers and the mall-lifestyle formats hints at potential stumbling blocks, as some markets are beginning to see a rise in availability.

Suburban submarkets have turned the tables, now exhibiting a lower availability rate than downtown submarkets.

Location analytics continue to be adopted by retailers, which pinpoint their ideal location within a market. This usage is **increasing the divide between availability in the top submarkets** vs. the rest of the pack.

Restaurants continue to surprise - elevated price points are not discouraging diners, and sales volume continues to grow despite consumers tightening their budgets in other areas.



Economy

1

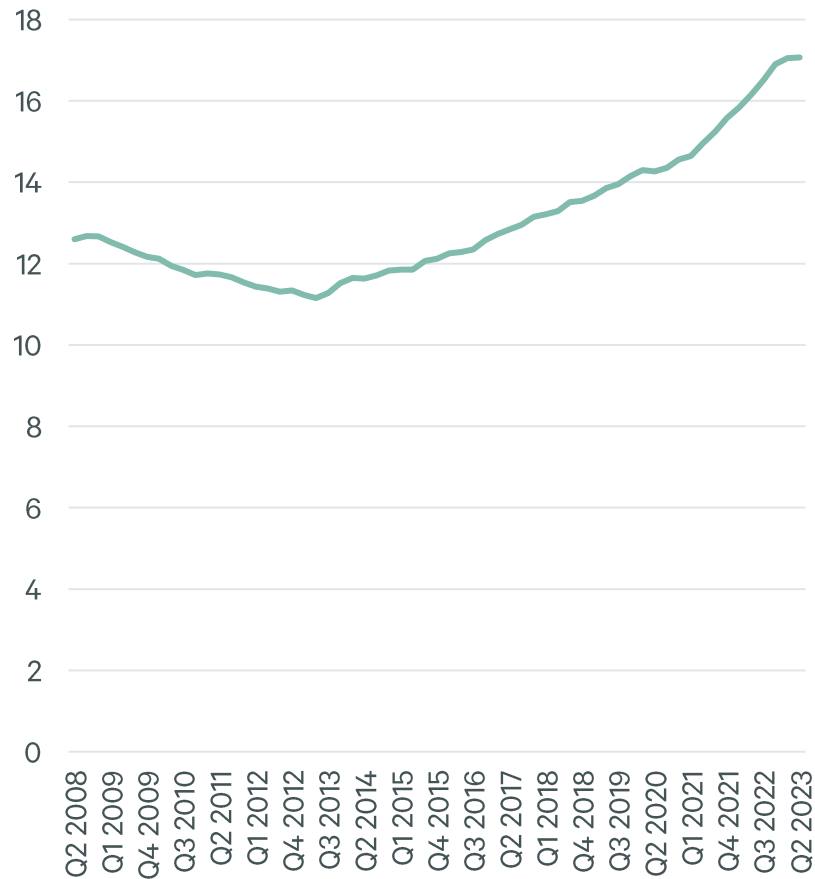


As of Q2 2023, consumer debt stood at \$17.1 trillion.

Growth in credit card debt has begun to steepen over the last year.

Total Consumer Debt

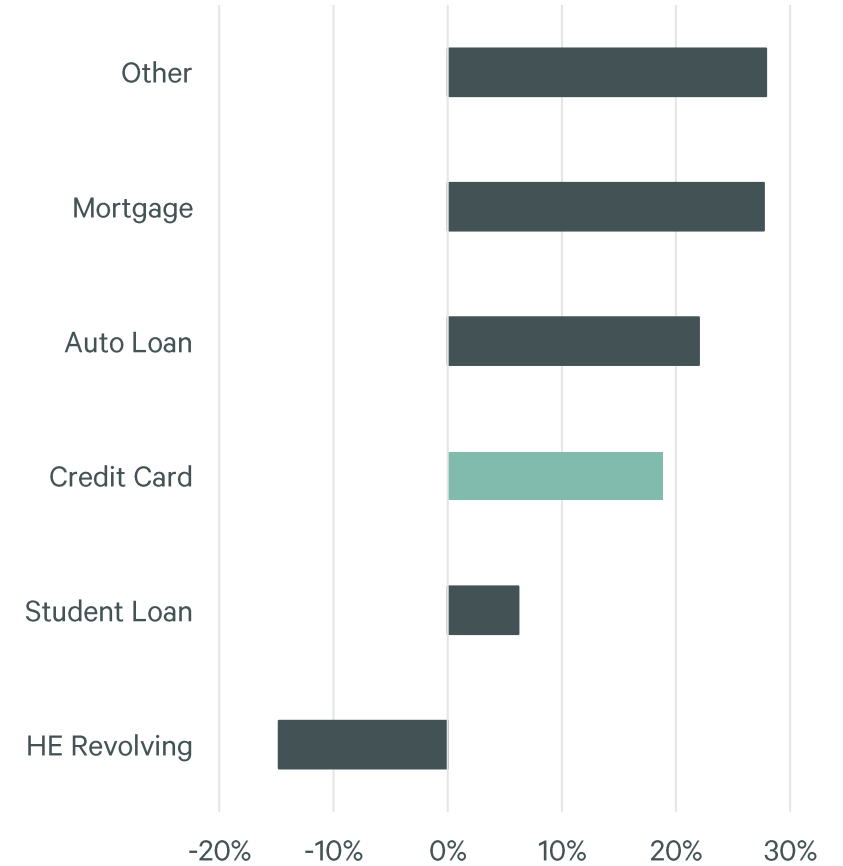
In Trillions of \$



Source: Federal Reserve Bank of New York, Q1 2023.

Components of Consumer Debt

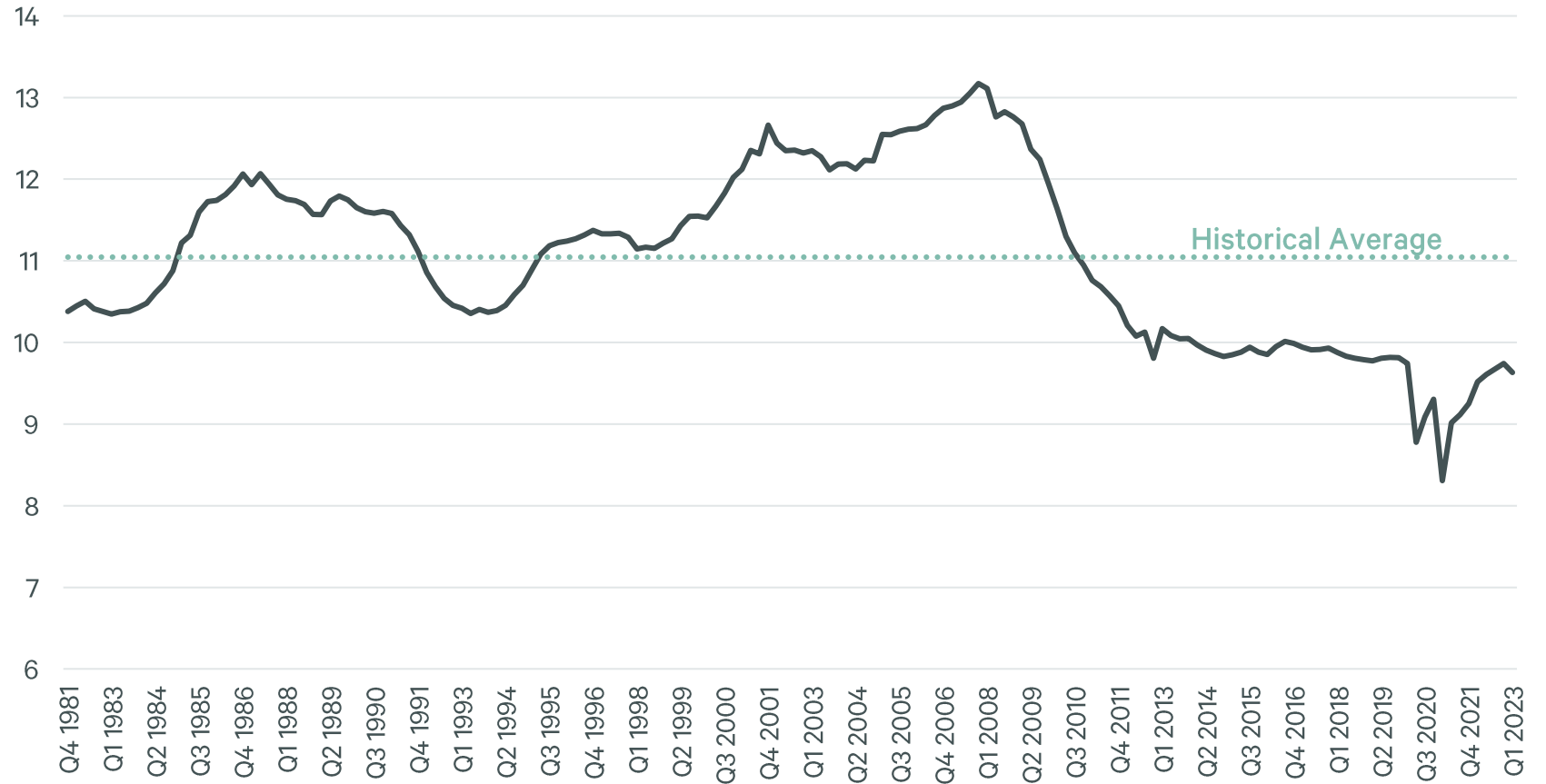
% Change, Q2 2023 vs. Q2 2019



Despite an uncertain economic climate, households are in good standing on average, remaining well-leveraged against debt service.

Household Debt Service Payments

As Percent of Disposable Personal Income

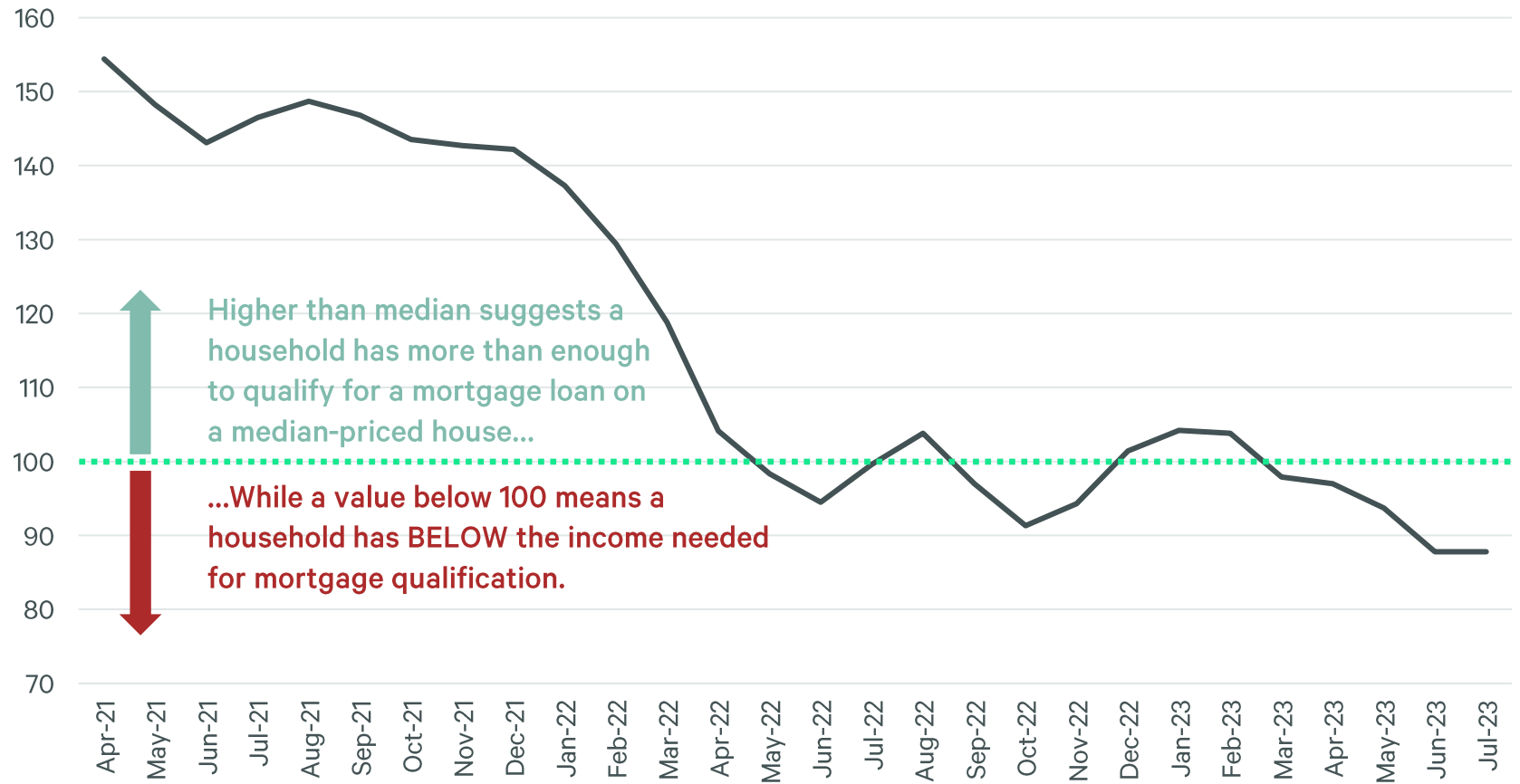


Source: St. Louis FRED, Q2 2023.

The housing affordability index score has fallen well below the average level of affordability.

Housing Affordability Index

100 = Median Affordability Score



Source: St. Louis FRED, Q2 2023.

Retail Challenges

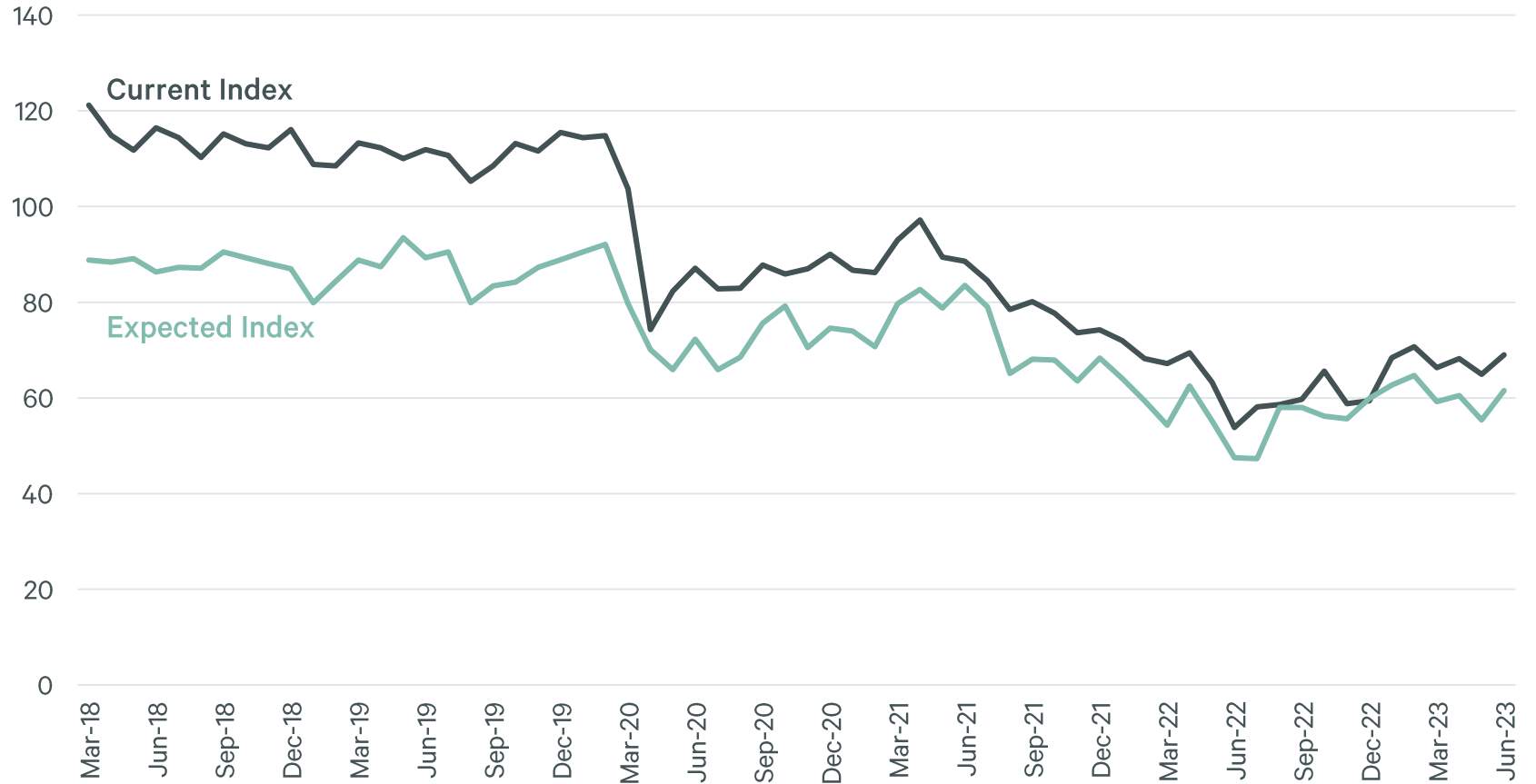
2



Although concern remains, consumer sentiment has been slowly but steadily improving since June 2022.

U.S. Consumer Sentiment Index

Monthly

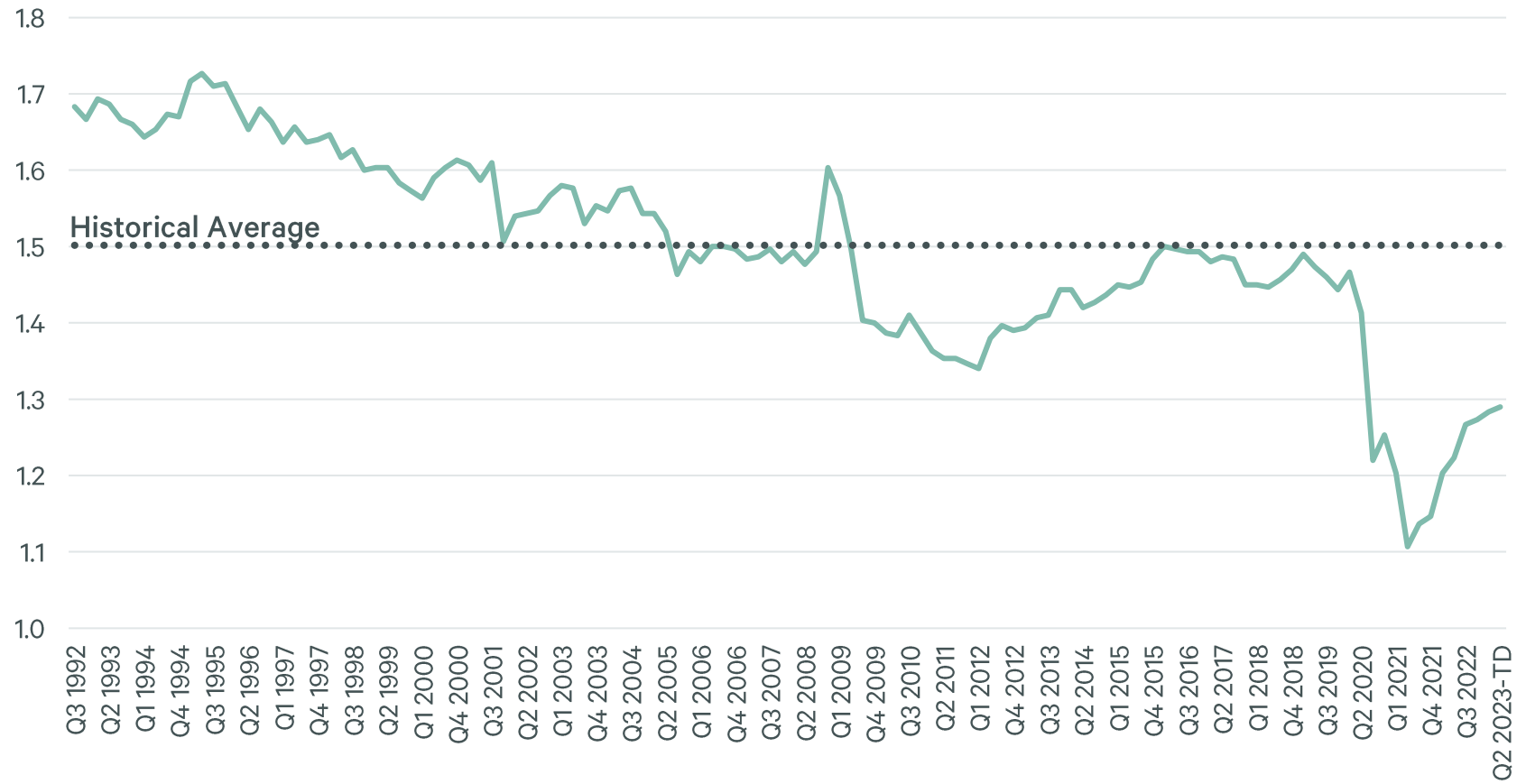


Source: University of Michigan, July 2023.

Although still below pre-pandemic levels, the retail inventory-to-sales ratio has been rising since late 2021.

Retailer Inventory to Sales Ratio

of Months of Inventory on Hand in Relation to Monthly Sales

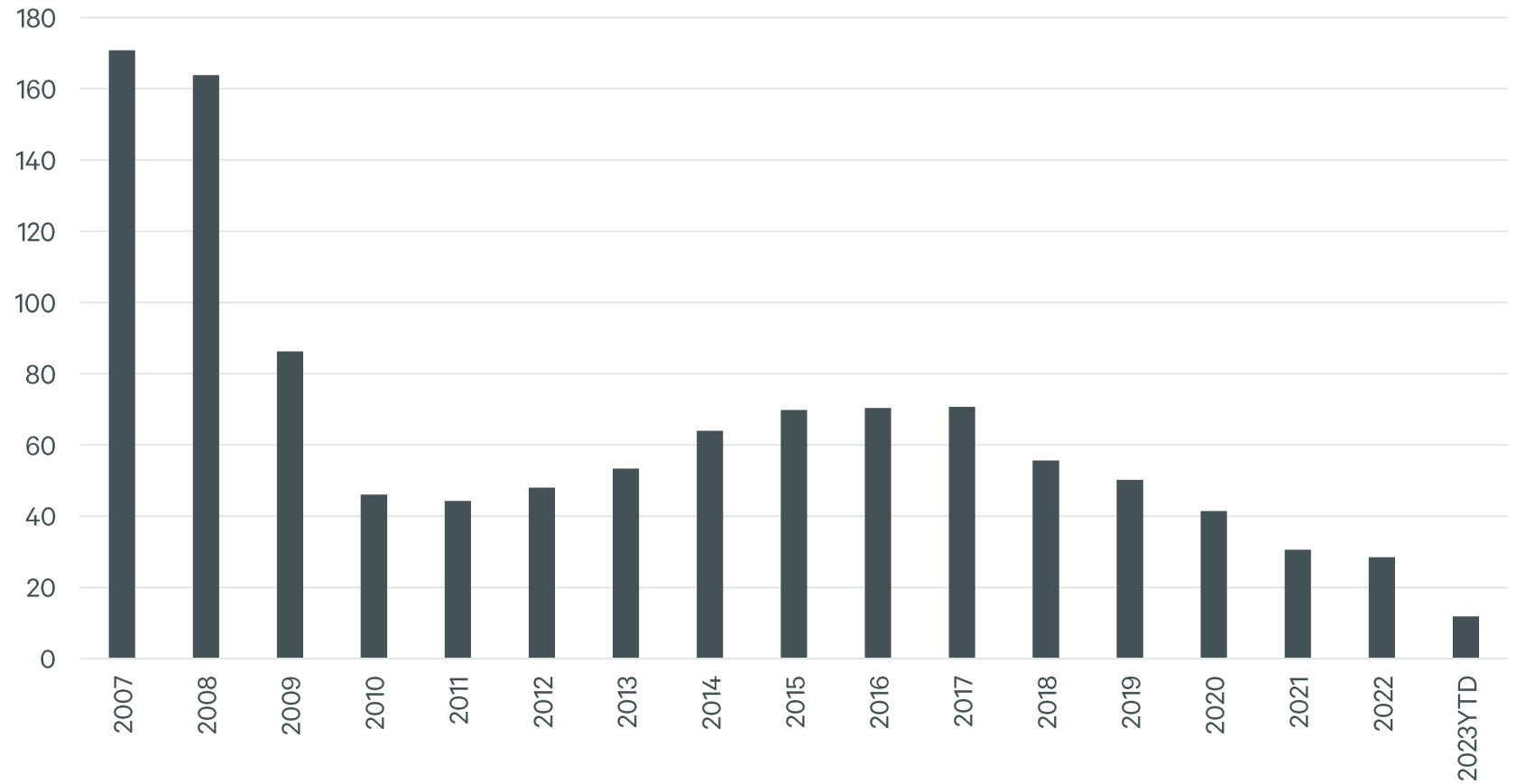


Source: St. Louis FRED, Q2 2023.

The retail development pipeline has been heavily muted since the Great Financial Crisis.

U.S. Retail Deliveries

All Types, SF/Millions

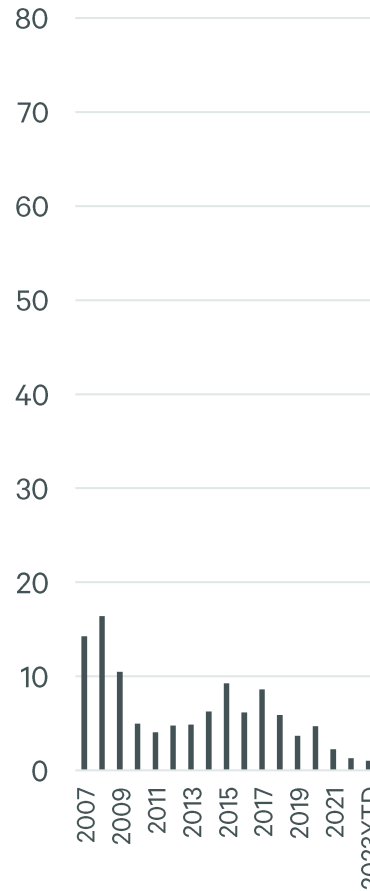


Source: CBRE Econometrics Advisors, Q2 2023

The obstacles to the development pipeline have interrupted all formats.

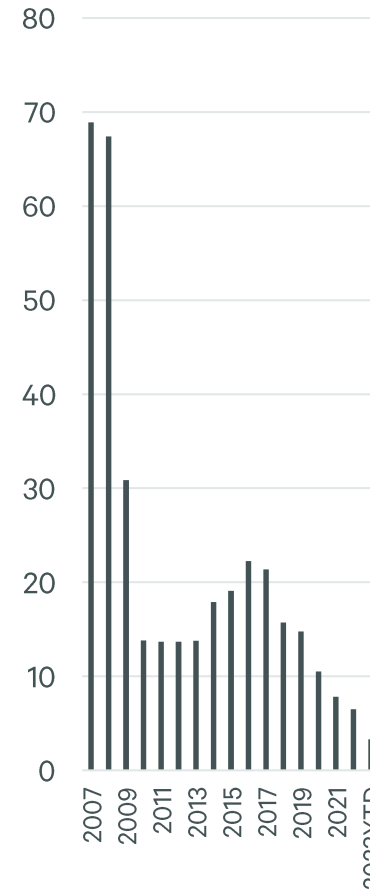
U.S. Retail Deliveries

Malls/Lifestyle
SF/Millions



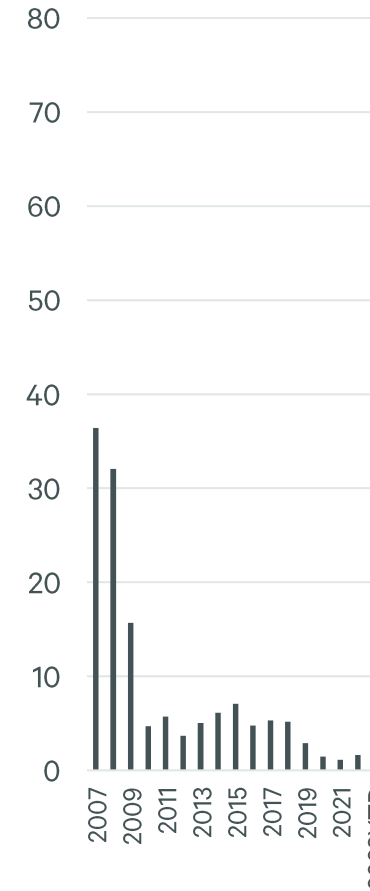
U.S. Retail Deliveries

Neighborhood/Comm
SF/Millions



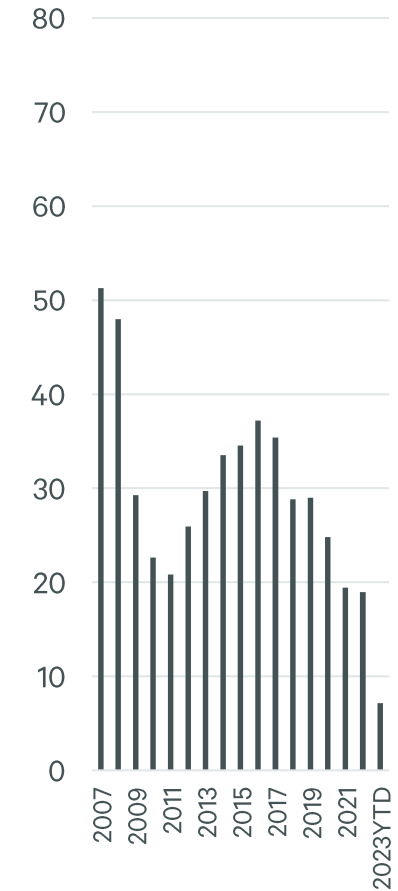
U.S. Retail Deliveries

Power
SF/Millions



U.S. Retail Deliveries

Other
SF/Millions

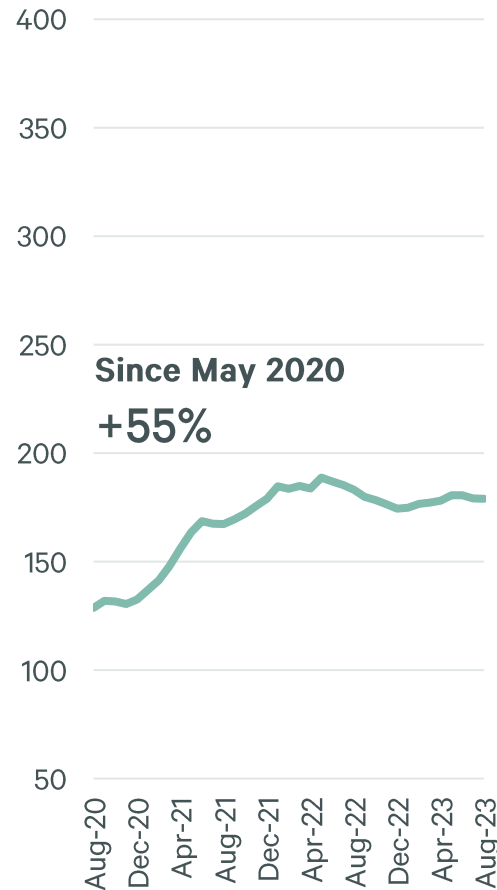


Source: CBRE Econometrics Advisors, Q2 2023

Retail developers are not only dealing with elevated materials costs but are also competing for resources with an active residential development sector.

Construction Materials Cost Index

June 2009 = 100



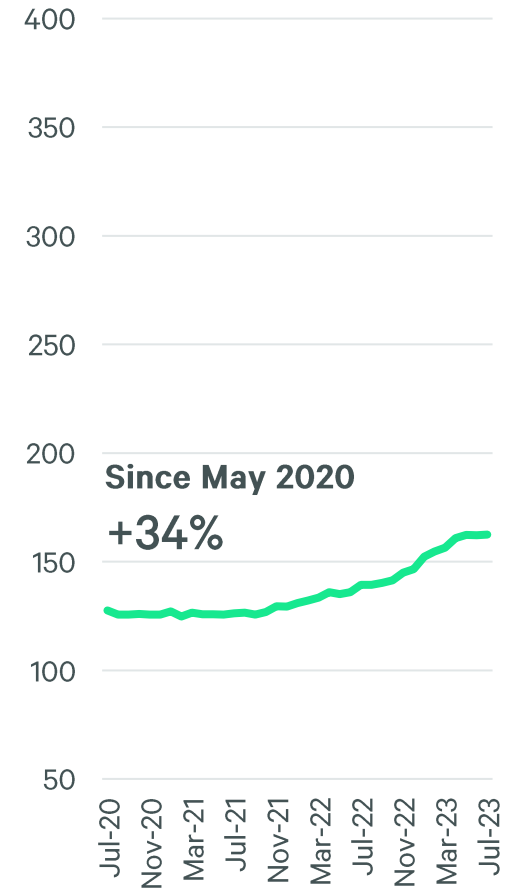
Residential Development Spending Index

June 2009 = 100



Non-Residential Development Spending Index

June 2009 = 100

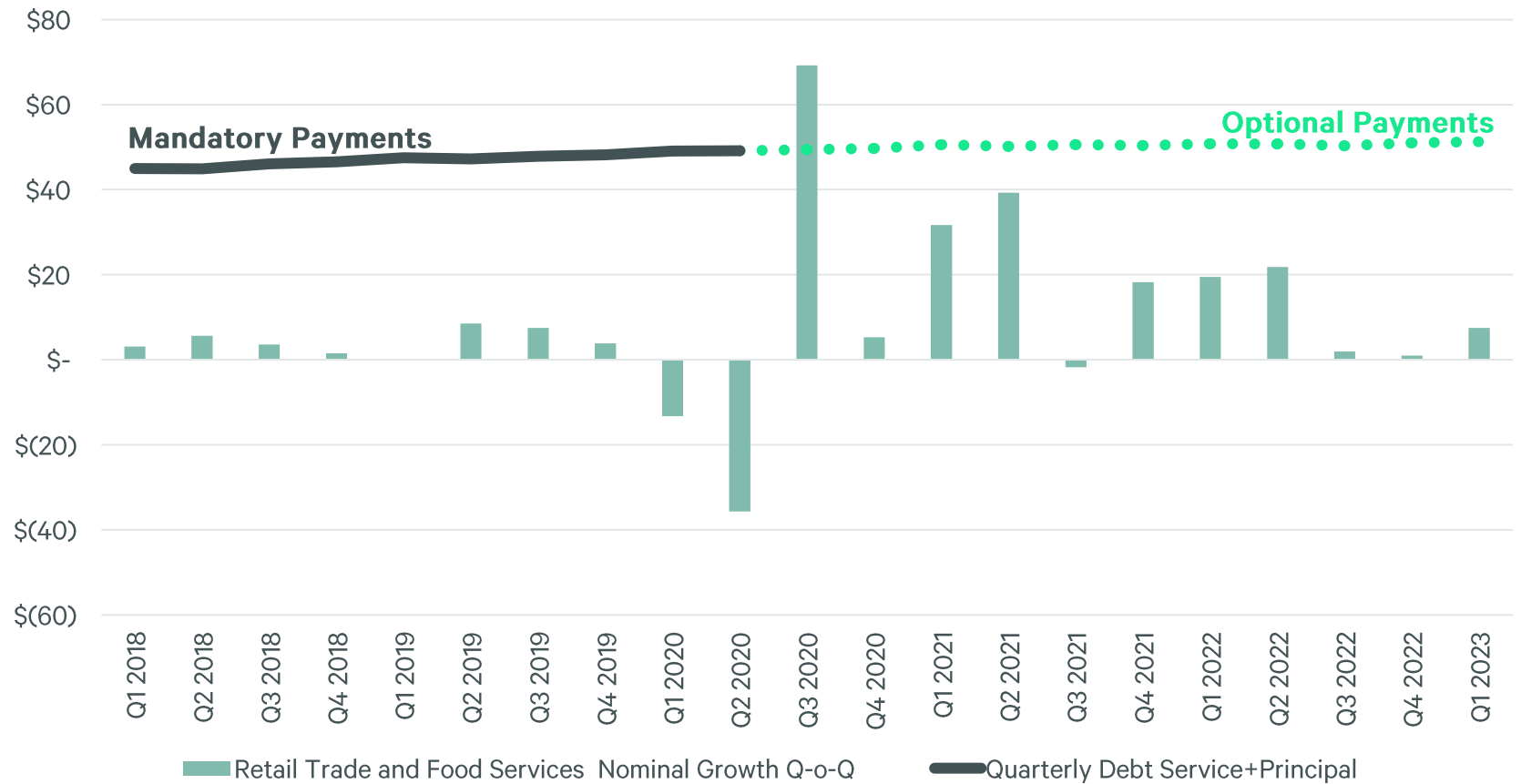


Source: St. Louis FRED, August 2023.

During the pause of student loan debt service payments, nominal retail sales growth has elevated.

Nominal Q-o-Q Growth of Retail Trade and Food Services vs. Quarterly Student Loan Debt Service

In Billions of \$



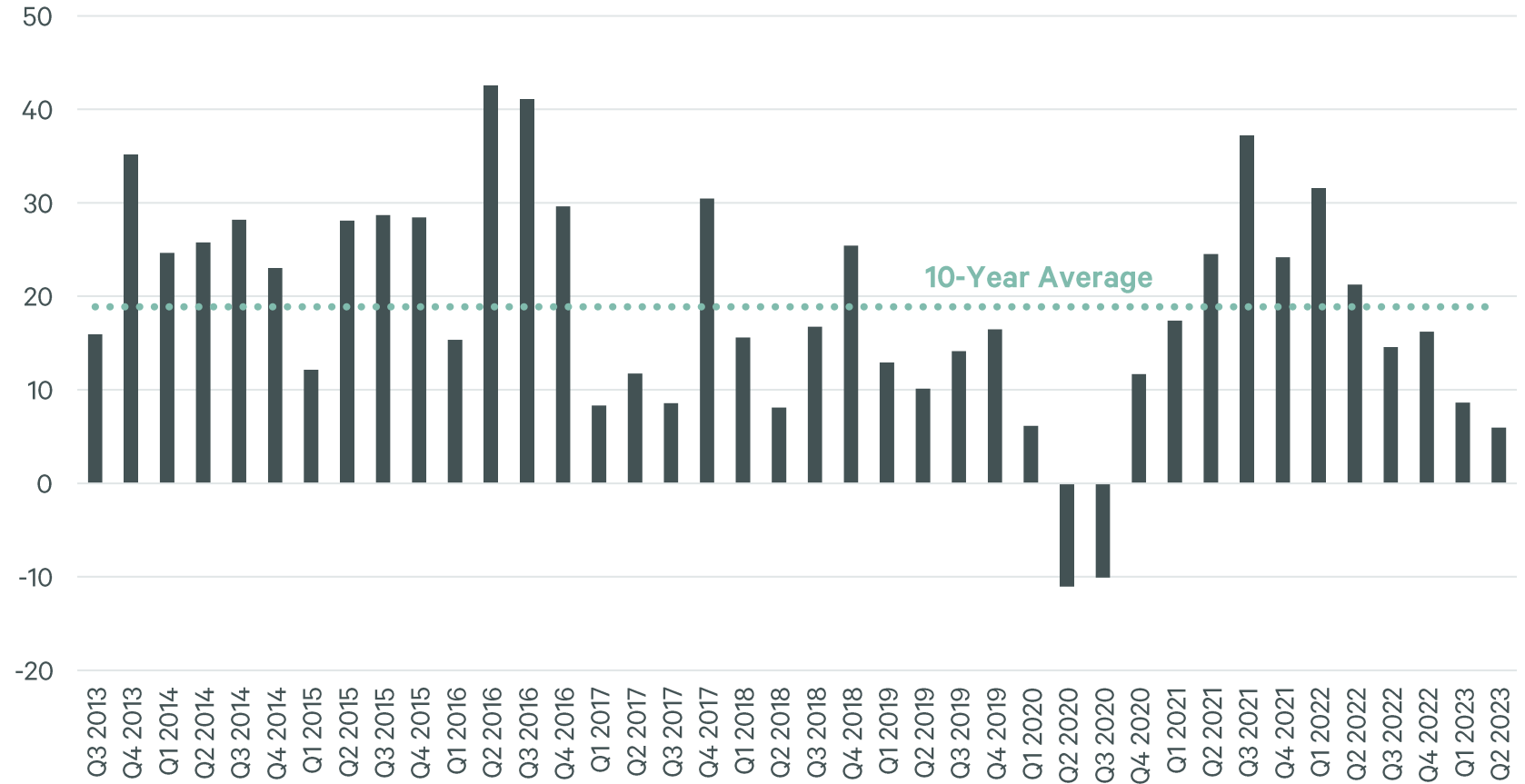
Source: Federal Reserve Bank of New York, Q1 2023, St. Louis FRED, CBRE Research, Q2 2023.



Absorption remains positive in Q2 2023 but is slowing, as development of new retail space remains muted.

Retail Space Absorption

In Millions of SF, by Asset Class

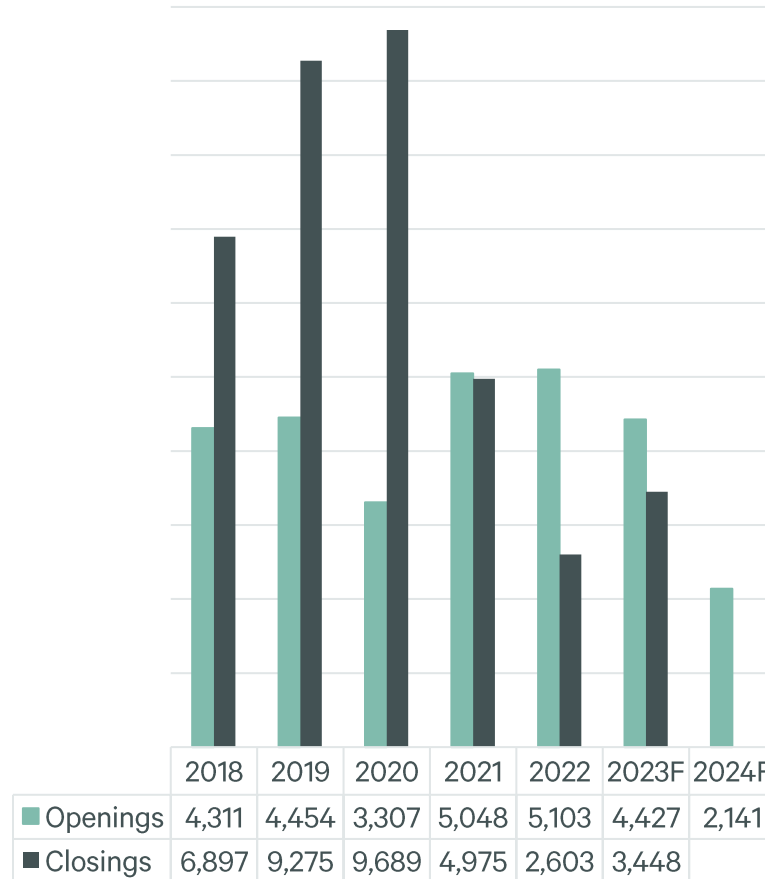


Source: CBRE Econometrics Advisors, Q2 2023.

Mass store closures that plagued the late 2010s appear to have passed - 2023 should be net-positive for openings, with early forecasts for 2024 suggesting 2,100 openings.

Retail Openings vs. Closings

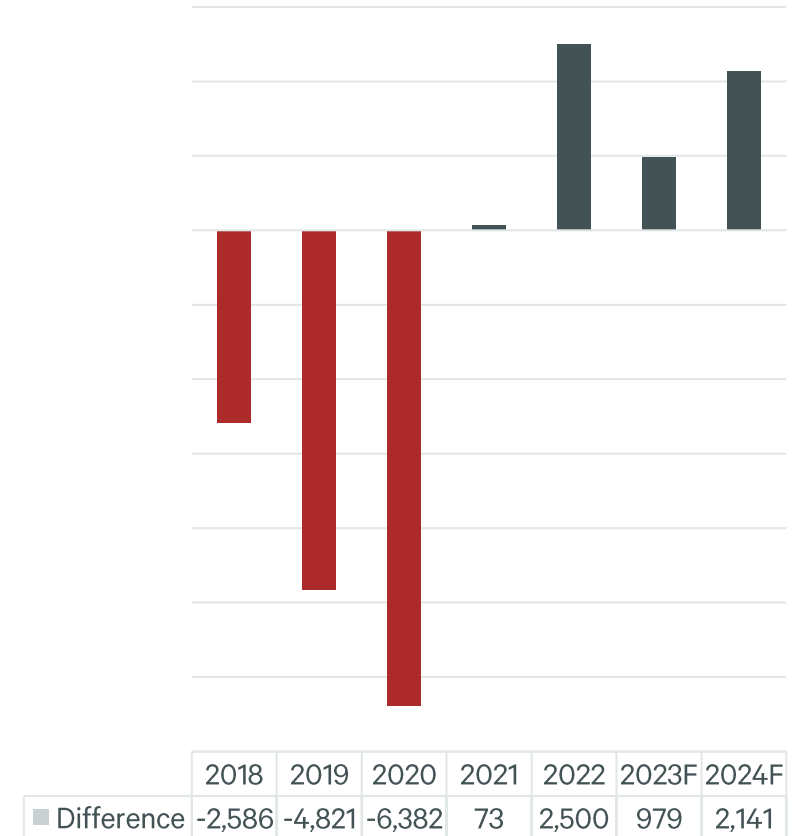
Historical and Forecast, In Total Stores



Note: 2024 data is preliminary and does not include a complete set of forecasted closings.
Source: Footwear News, Coresight Research, CBRE Research, Q2 2023.

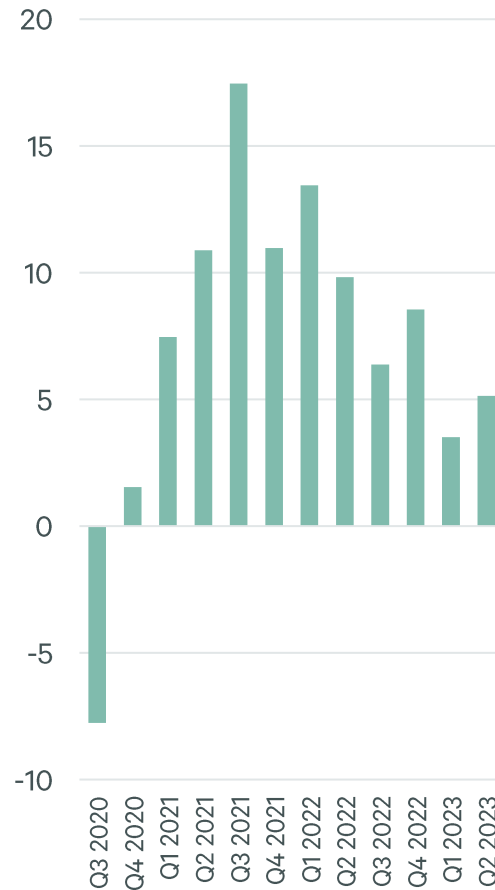
Retail Openings vs. Closings, Net Outcome

Historical and Forecast, In Total Stores

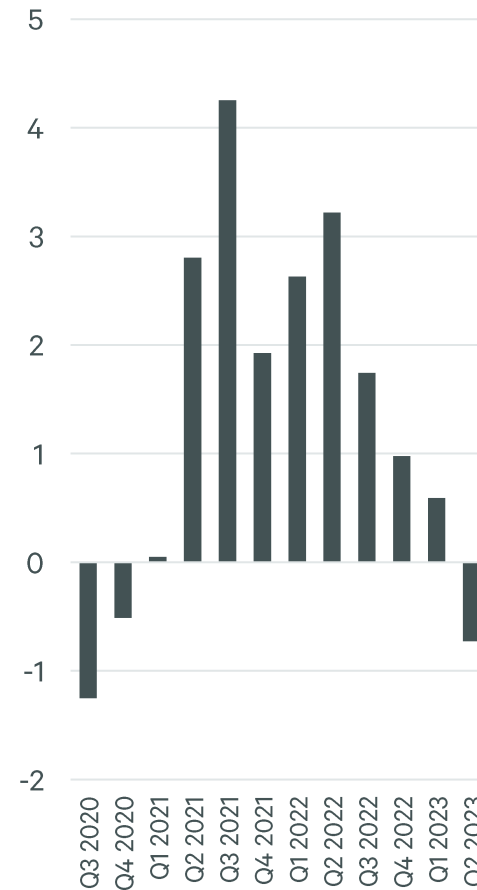


Neighborhood, community and strip centers have regained a bit of momentum, while big box closures and new retailer strategy have begun to take their toll within the power and mall formats.

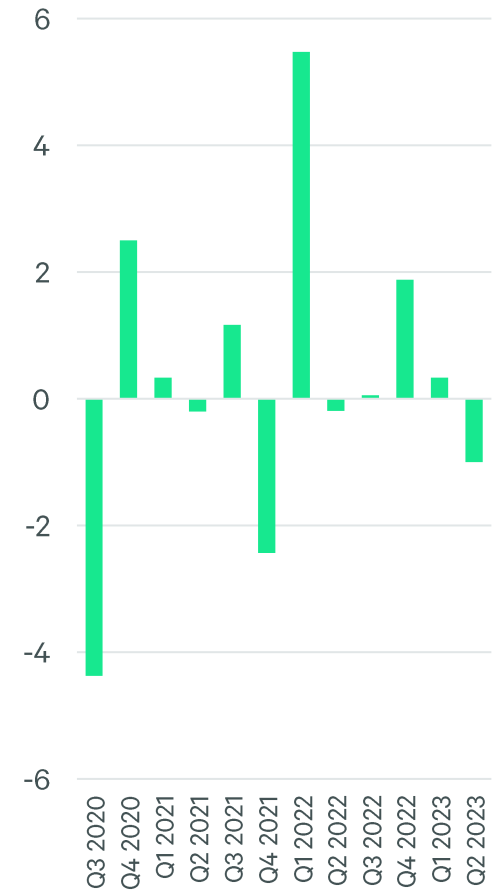
Neighborhood/Community/Strip
In Millions of SF



Power
In Millions of SF



Mall/Lifestyle
In Millions of SF

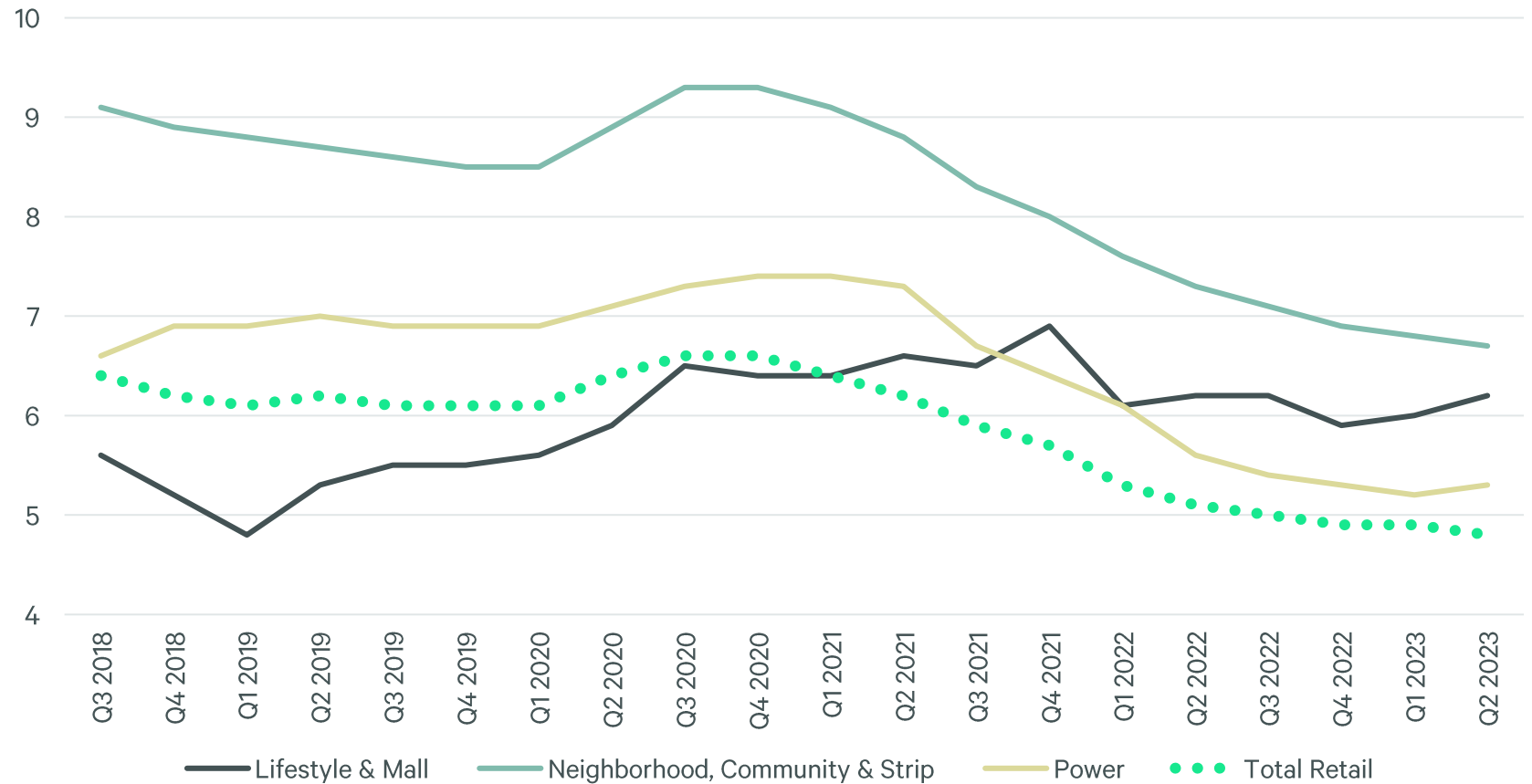


Source: CBRE Econometrics Advisors, Q2 2023.

Overall availability hit another record low in Q2 2023 at 4.8%...

...but some formats have begun to slow, as malls and power centers both see an increase in availability.

Retail Space Availability
By % Available and Format

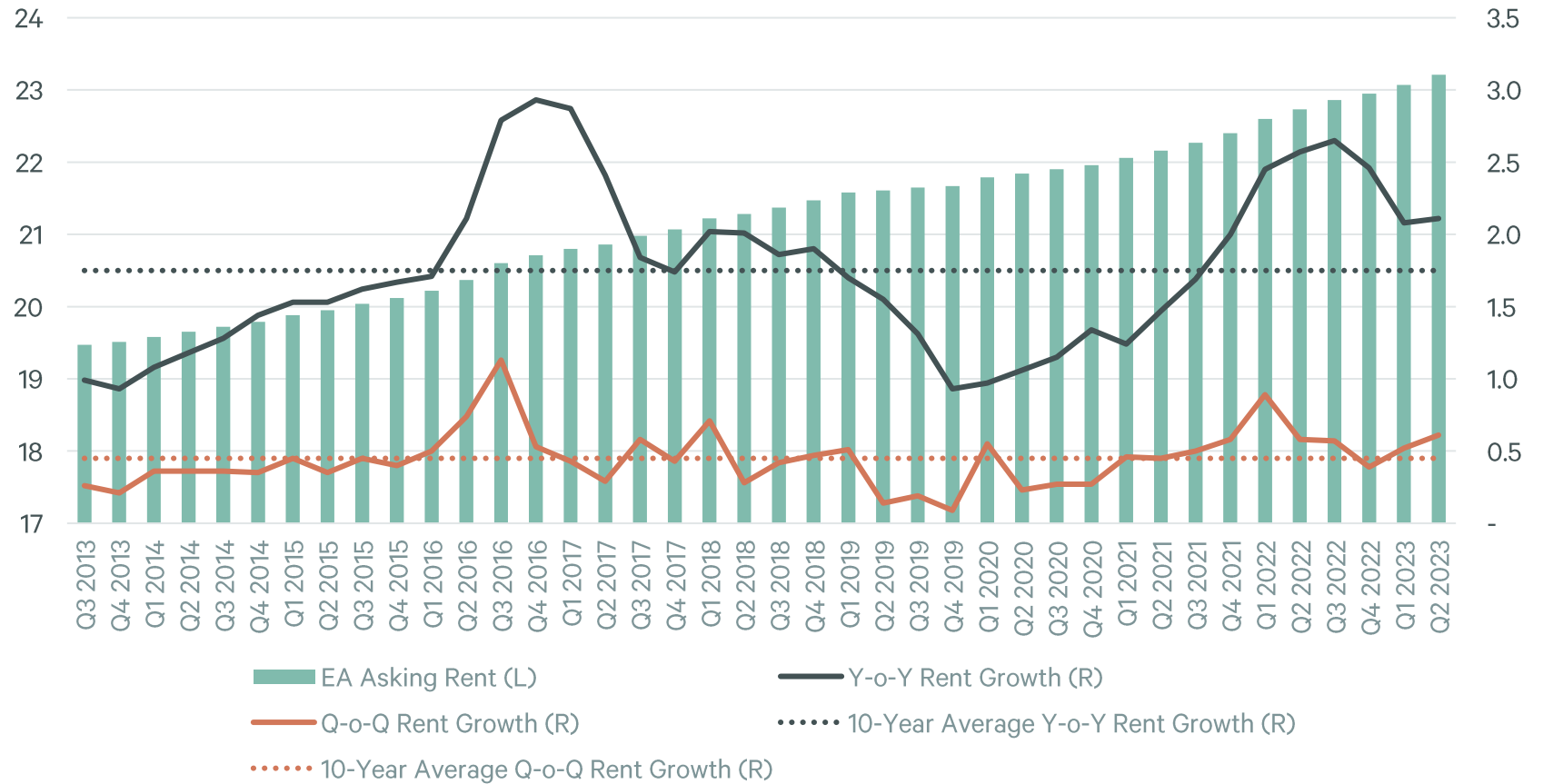


Source: CBRE Econometrics Advisors, Q2 2023.

Asking rent growth has begun to increase on both a quarter-over-quarter and year-over-year basis, remaining above long-term averages.

Retail Asking Rents and Asking Rent Growth

By \$/SF and % Change Year-over-Year

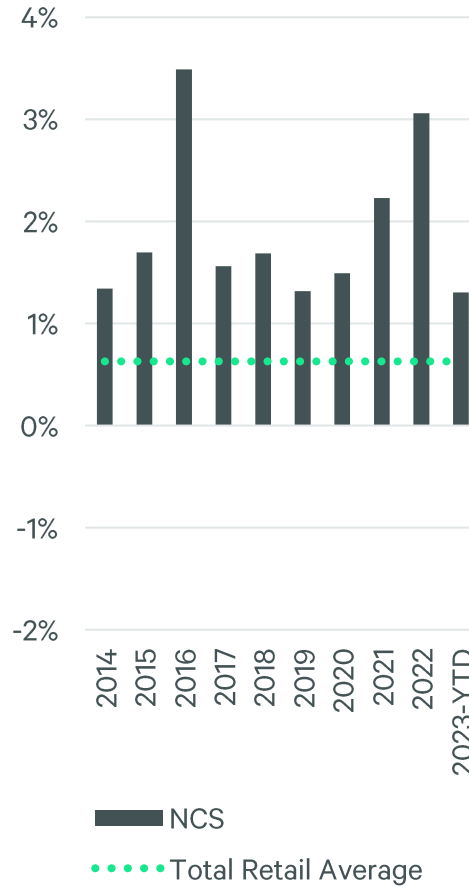


Source: CBRE Econometrics Advisors, Q2 2023.

Among formats, neighborhood, community and strip centers have pushed rent growth.

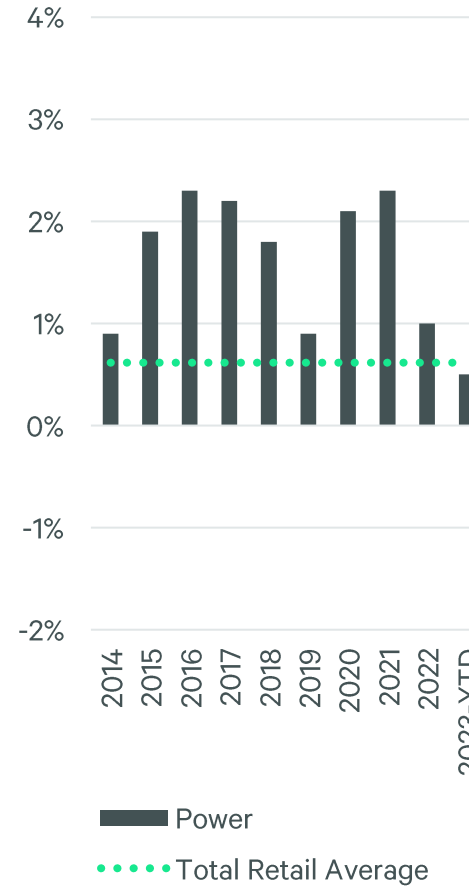
Asking Rents: Retail

Neighborhood/Community/Strip
% Growth, Year-over Year



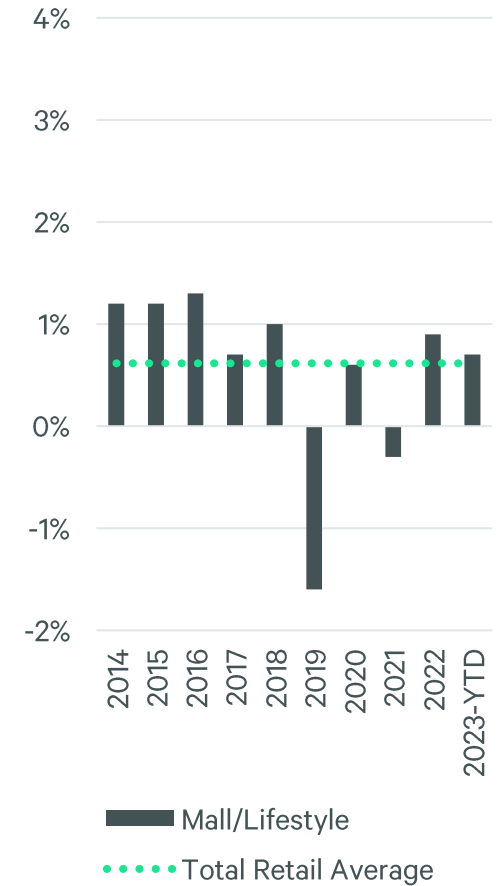
Asking Rents: Retail

Power
% Growth, Year-over Year



Asking Rents: Retail

Malls/Lifestyle
% Growth, Year-over Year



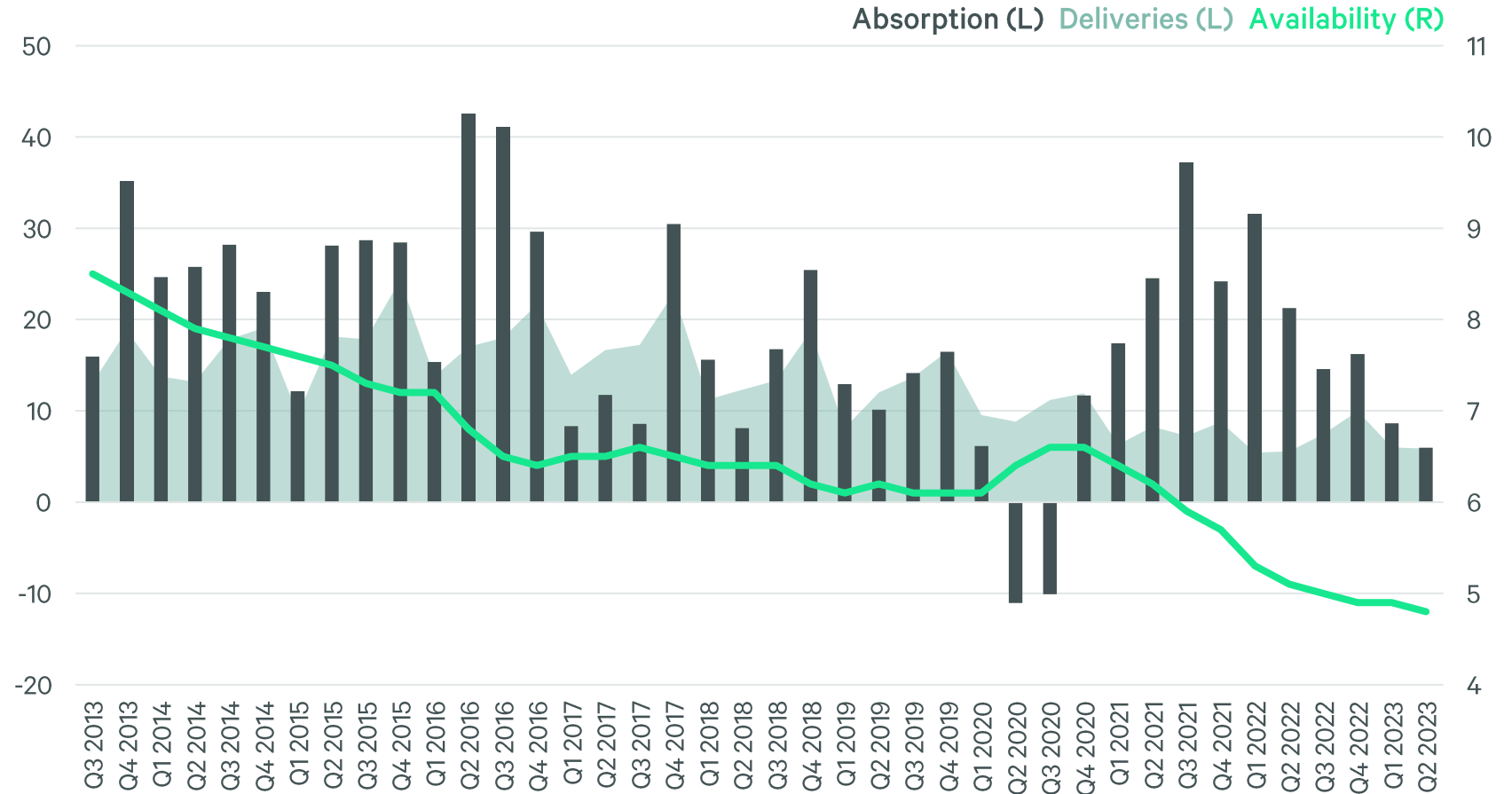
Source: CBRE Econometrics Advisors, Q2 2023.

In summary, absorption remains positive, and completions remain at record-low levels...

...which has encouraged 15-year lows in retail availability.

Retail Space Absorption, Deliveries, and Availability

Quarterly, In Millions of SF, and Availability by %



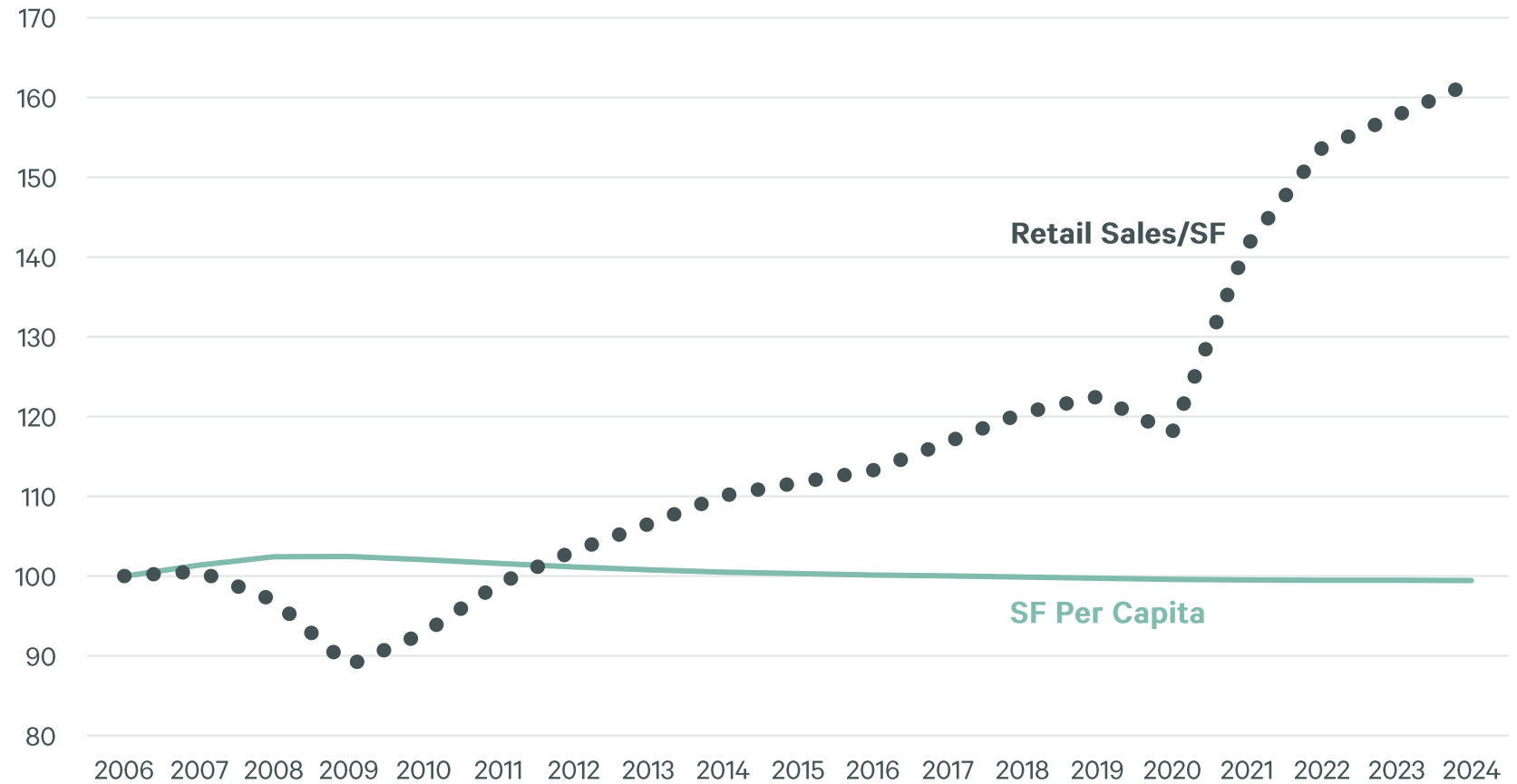
Source: CBRE Econometrics Advisors, Q2 2023.

Retail sales per sq. ft. have risen steadily as retail space per capita has declined.

A pause in 2020 briefly halted growth, but muted development has ensured productivity gains.

Annual Retail Sales/SF and SF Per Capita Index, US

2006 = 100, Includes Retail Centers 20k SF and Up



Source: Costar, St. Louis FRED, CBRE Research, Q4 2022.

Availability within U.S. retail real estate will remain tight despite the scenario.

U.S. Retail Availability Forecast, by Scenario

% Available, U.S. Neighborhood and Community Centers

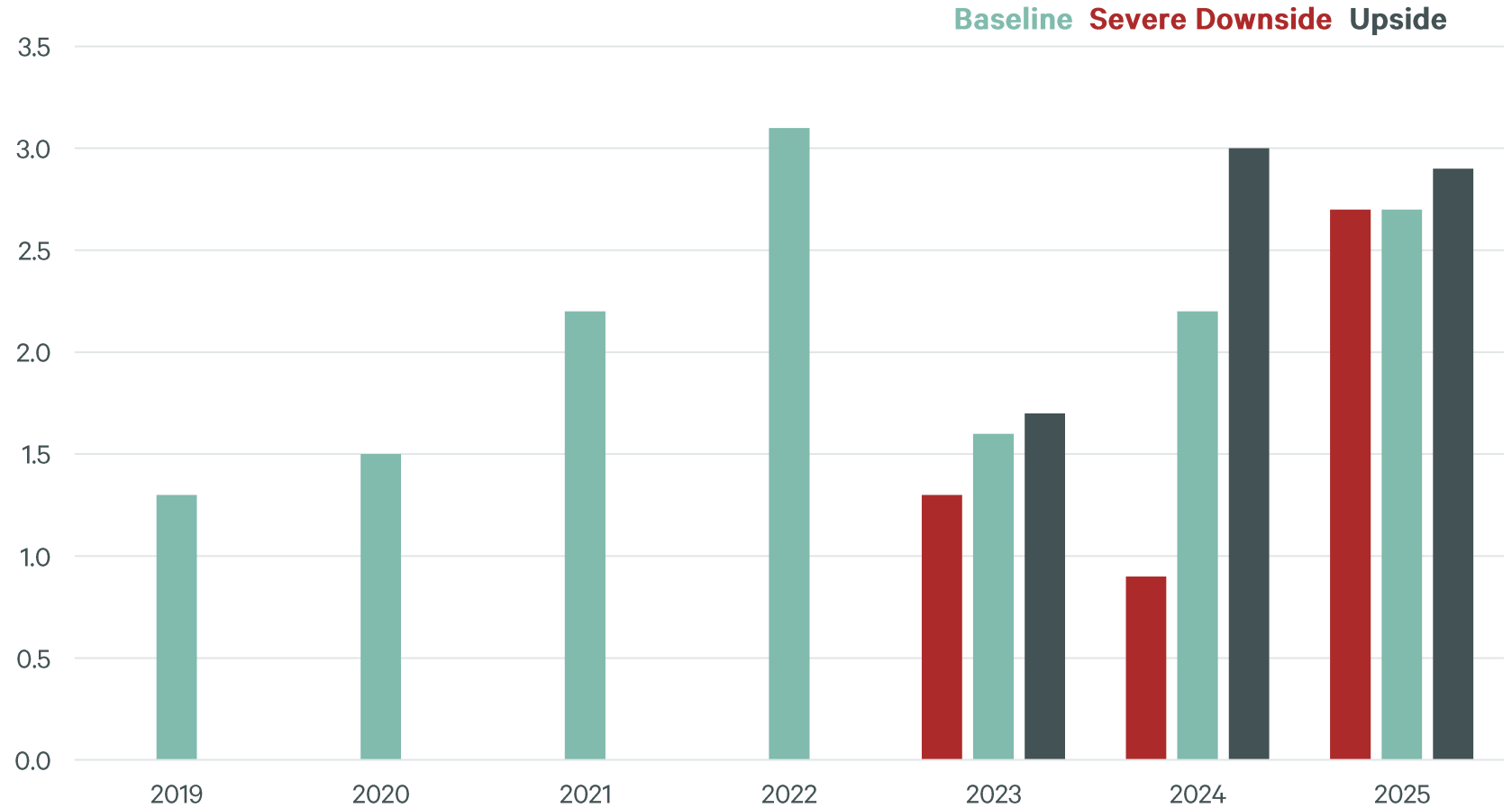


Source: CBRE Econometrics Advisors, Q2 2023.

A severe downside scenario could affect rents negatively in 2024, but the lack of supply, amid solid demand, will keep retail rent growth positive in any scenario.

U.S. Retail Asking Rent Forecast, by U.S. Economy Scenario

% Change YOY, U.S. Neighborhood and Community Centers



Source: CBRE Econometrics Advisors, Q2 2023.

Retailers and Category Trends

4

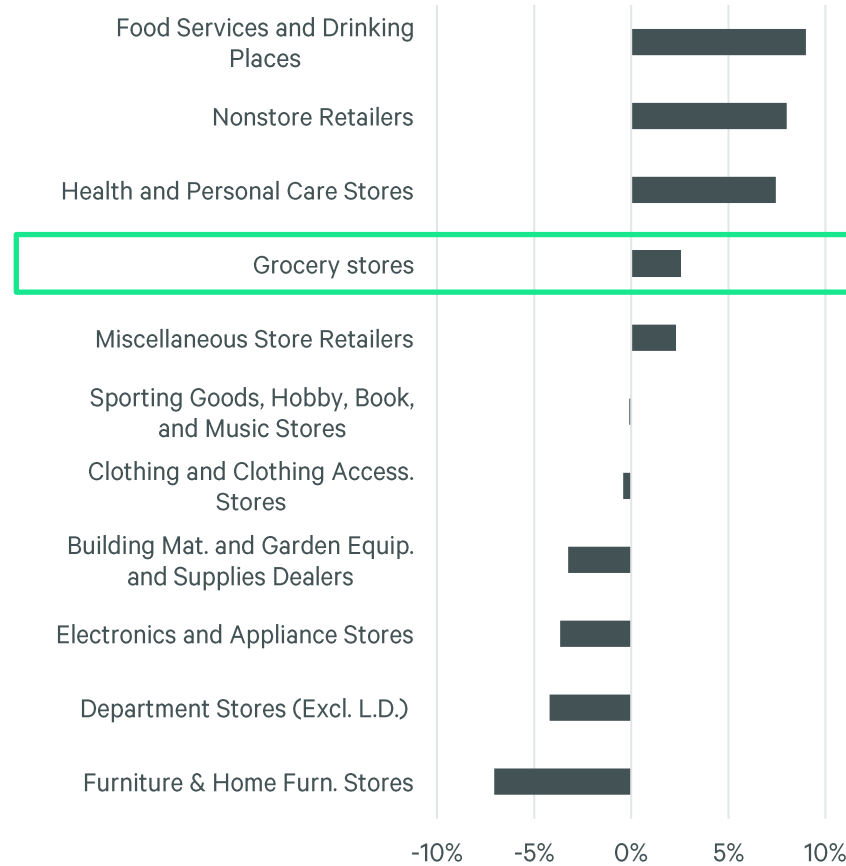


CPI remains high for food away from home, boosting sales figures for restaurants, while grocery sales have calmed.

Health and personal care stores were strong Q-o-Q.

Retail Sales, Q2 2023

Year-over-Year % Growth, by Category



Retail Sales, Q2 2023

Quarter-Over-Quarter % Growth, by Category



Source: U.S. Census Advance Monthly Retail Sales, CBRE Research, Q2 2023.

Unlike the entirety of retail trade, grocery stores thrive within economic uncertainty.

Retail Sales Growth by Category

% Change, Year-over-Year

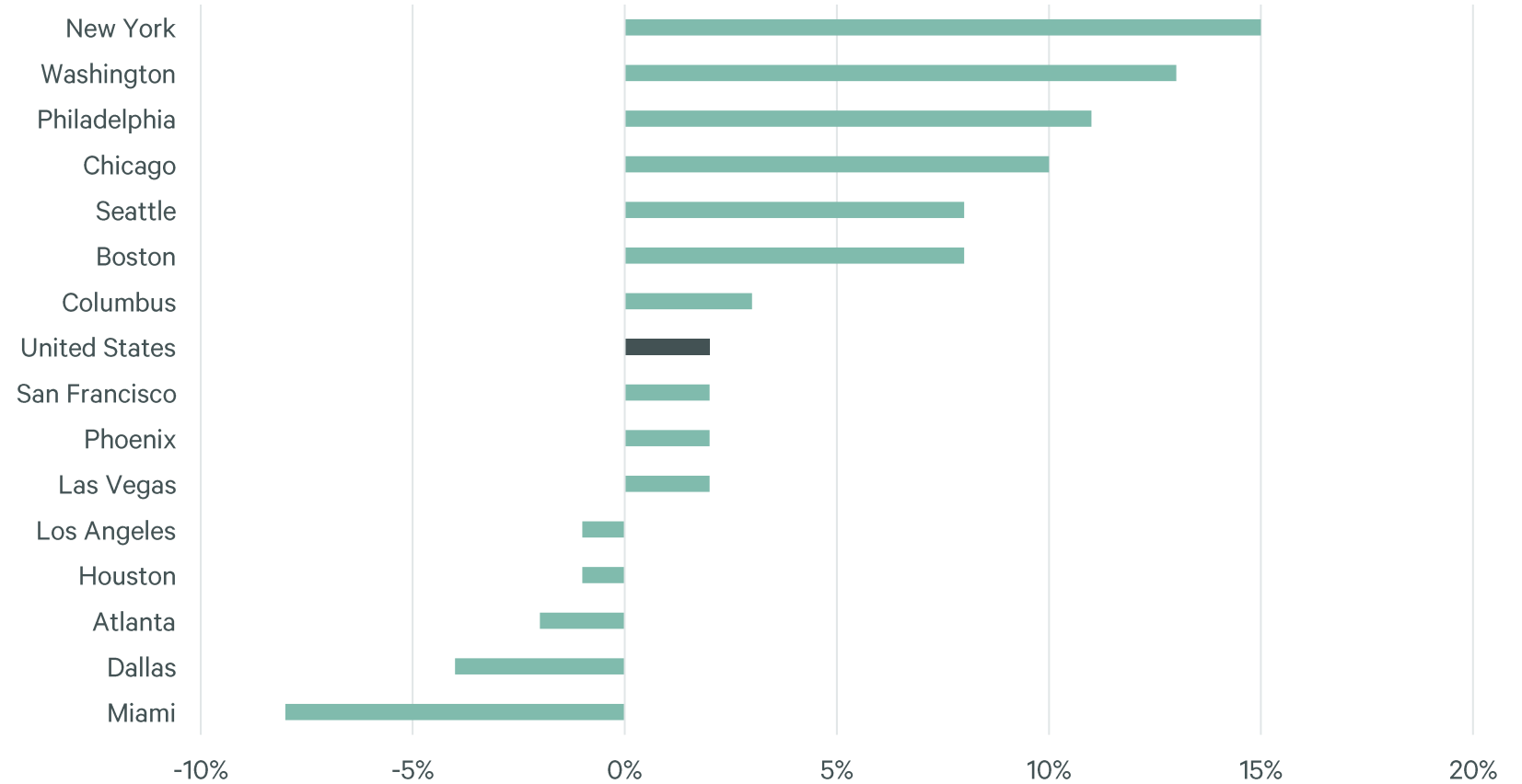


Source: U.S. Census Advance Monthly Retail Sales, CBRE Research, Q2 2023.

Seated Diners at Restaurants

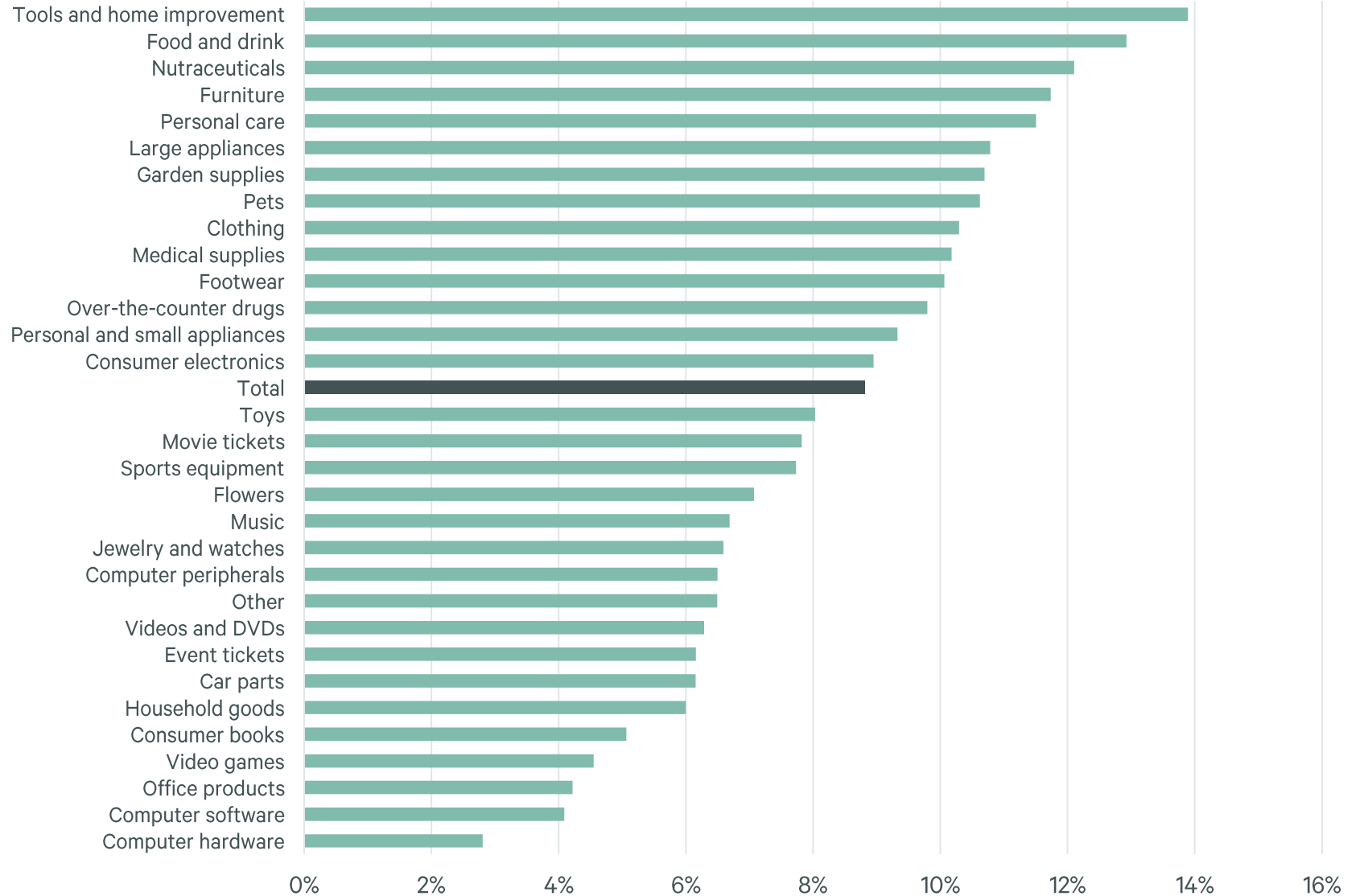
% Change, 2023 YTD

On a year-over-year basis, legacy primary markets like New York, Philadelphia and Chicago have seen a surge in restaurant visits, while many of the markets that were hot in 2022 have slightly cooled.



Data represents the 6-month average for each market.
Source: OpenTable, CBRE Research, Q2 2023.

Total retail sales growth projections by category from 2023 to 2028 forecast strong growth from home improvement, food and beverage and personal care products, among others.



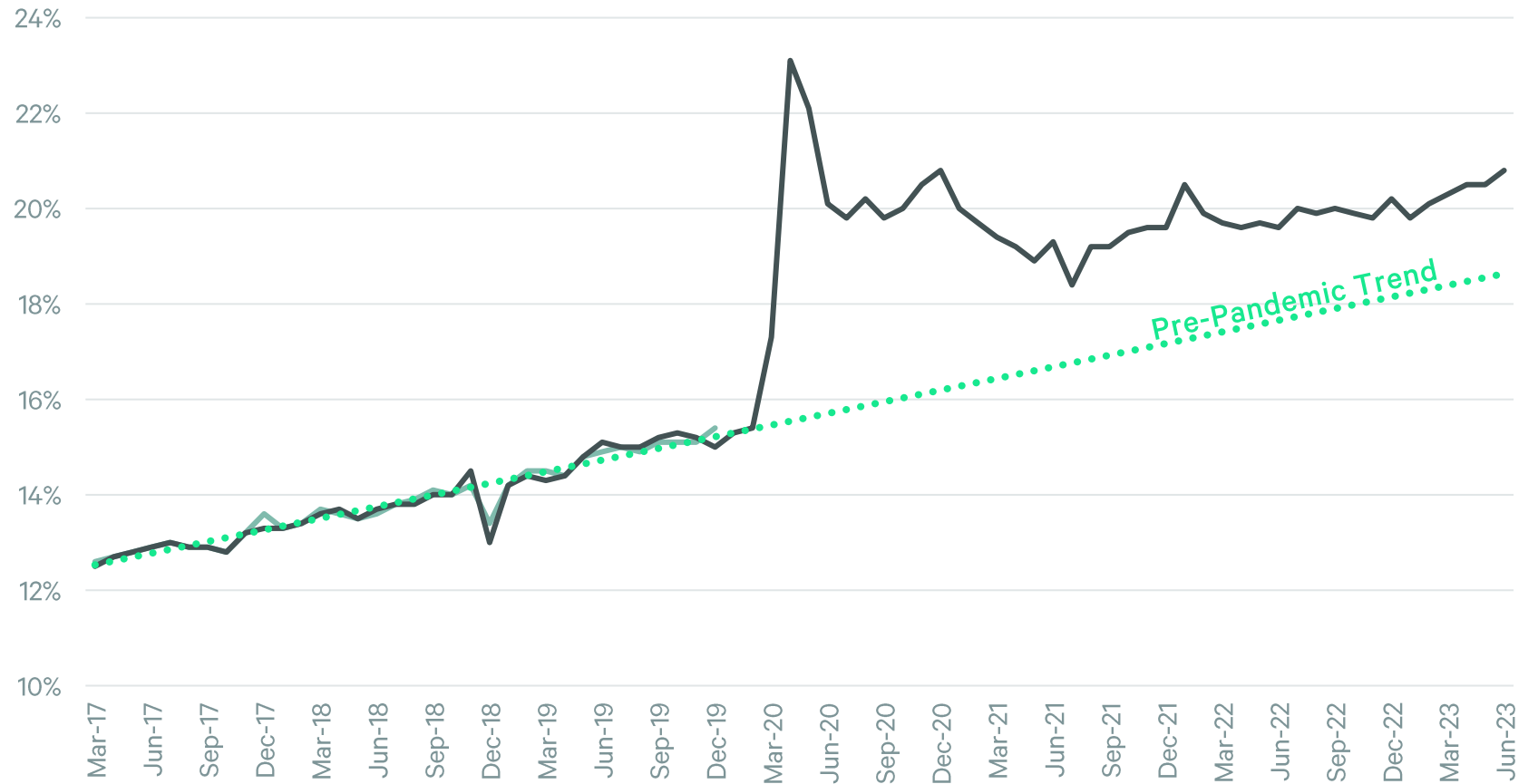
Source: Forrester's US Online Retail Forecast, 2023 To 2028, Q2 2023.



E-commerce share of retail sales has stabilized and looks likely to rejoin the pre-pandemic trendline.

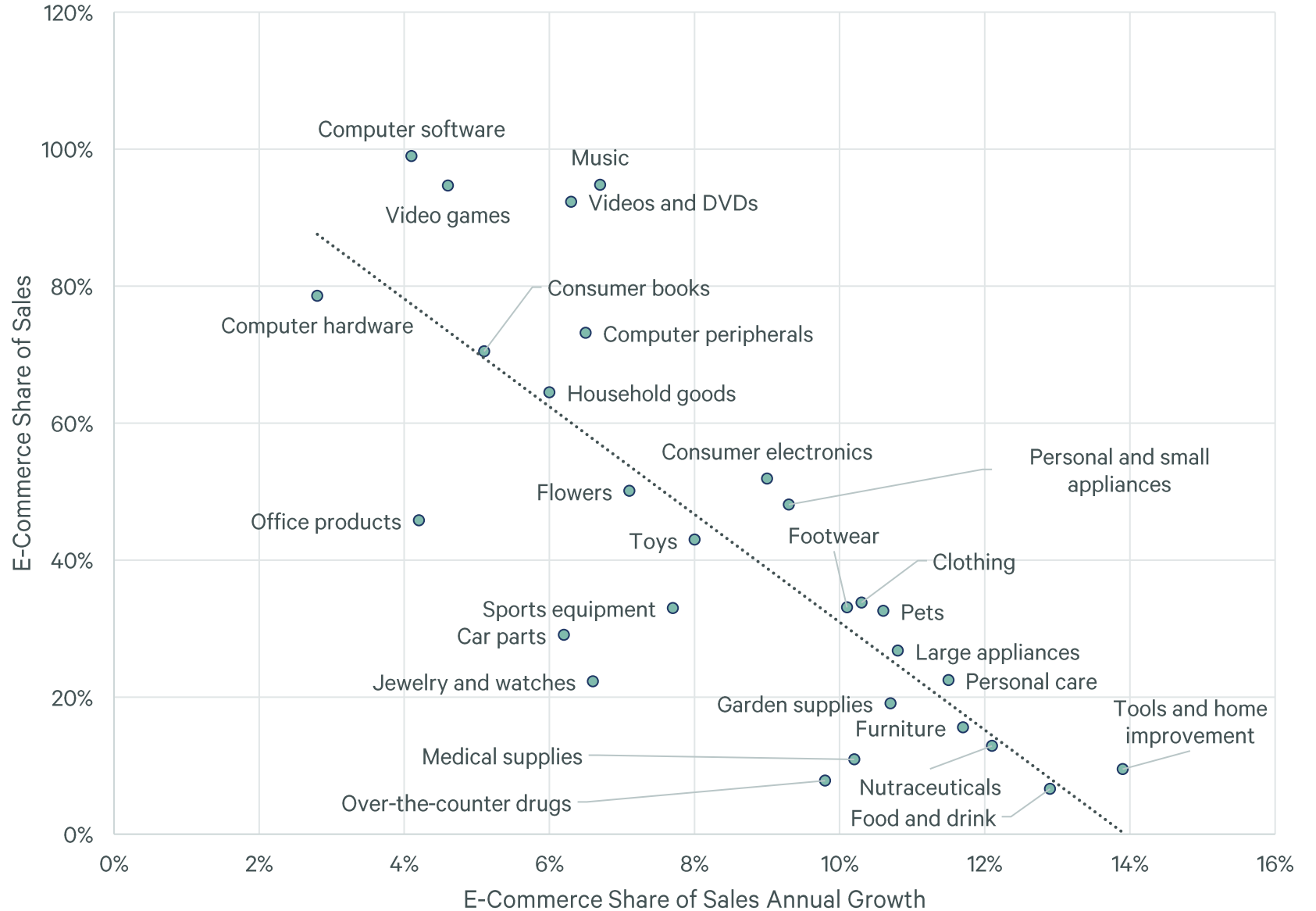
Retail Sales Share* by Pure-Play E-commerce Retailers

% of Retail Sales by Type



*Electronic shopping share of retail sales excluding auto, auto parts and gas.
Source: U.S. Census Advance Monthly Retail Sales, CBRE Research, Q2 2023.

Online sales growth projections by category from 2023 to 2028 suggest high performers will be food and drink, home improvement, “medtail”-type goods and furniture.

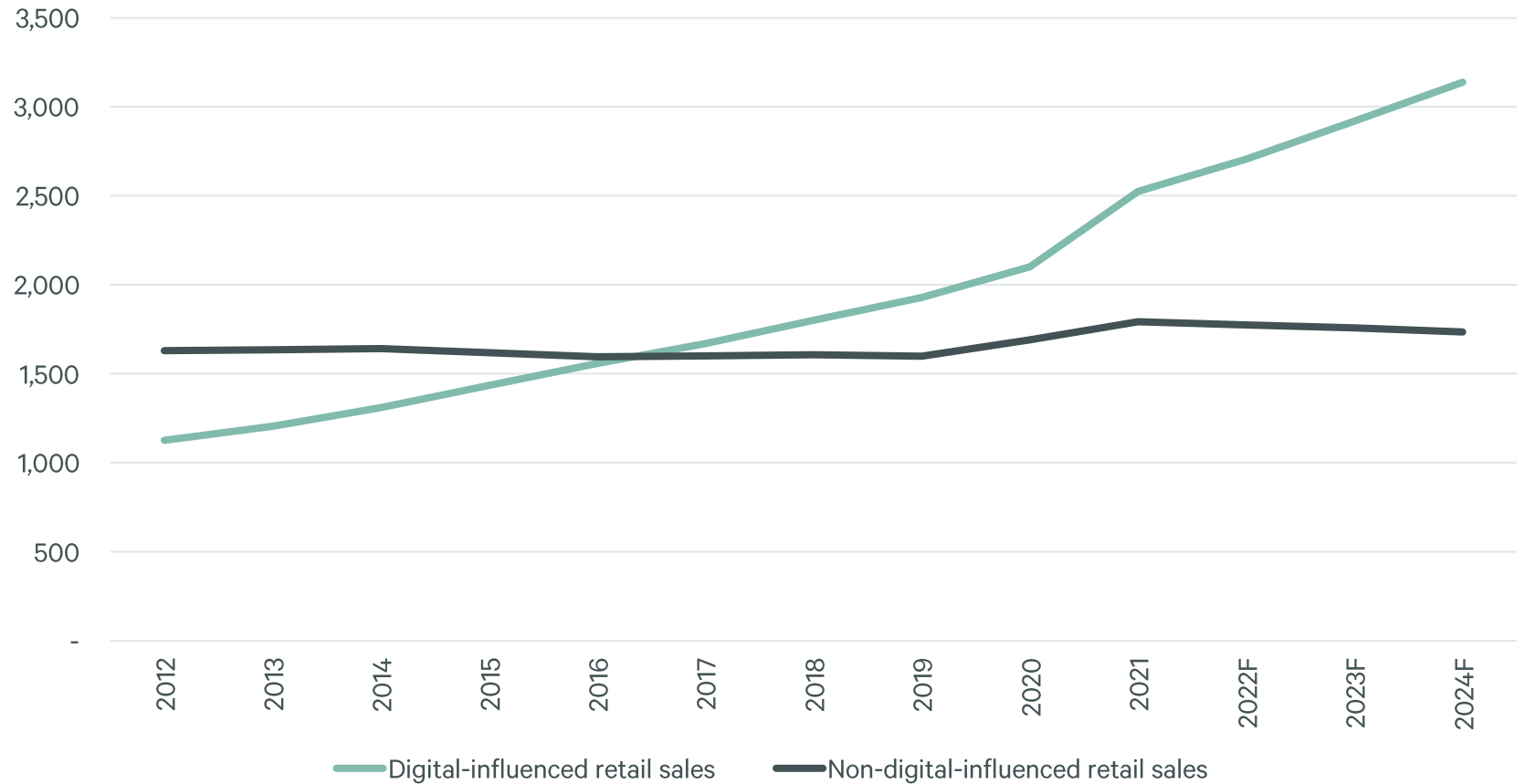


Source: Forrester's US Online Retail Forecast, 2023 To 2028, Q2 2023.

More importantly, retailers want to track digitally-influenced retail sales, which now represent 60% of the total and will make up 70% of total retail sales by 2027.

Digital-Influenced retail sales vs. non-digital influenced retail sales

Retail Sales by Type, in Billions of \$



Source: Forrester, 2022.

Geographic Opportunities

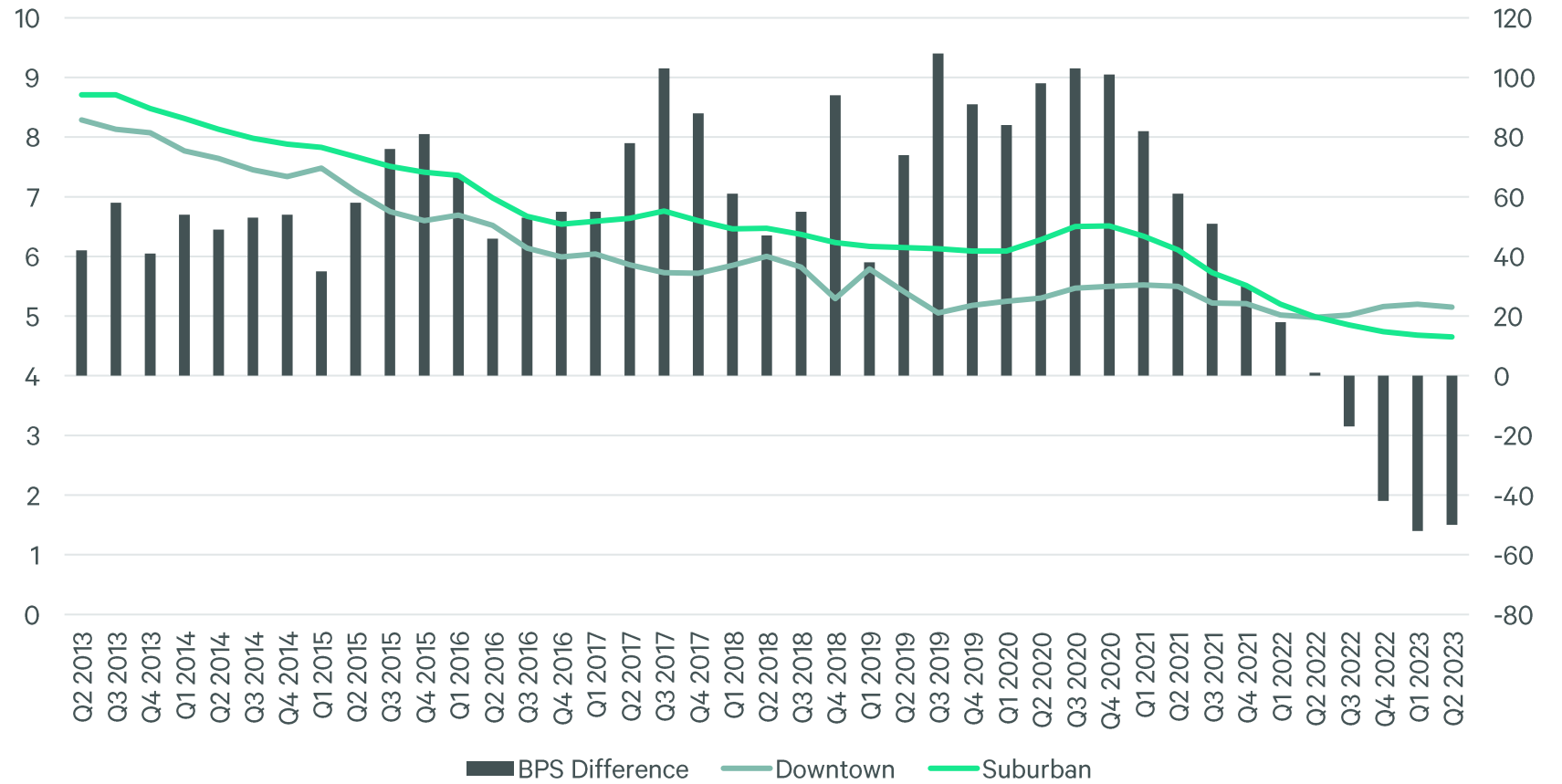
6



Over the last four quarters, retail availability has been tighter in suburban submarkets than in urban submarkets.

Retail Availability by Suburban and Urban Submarkets

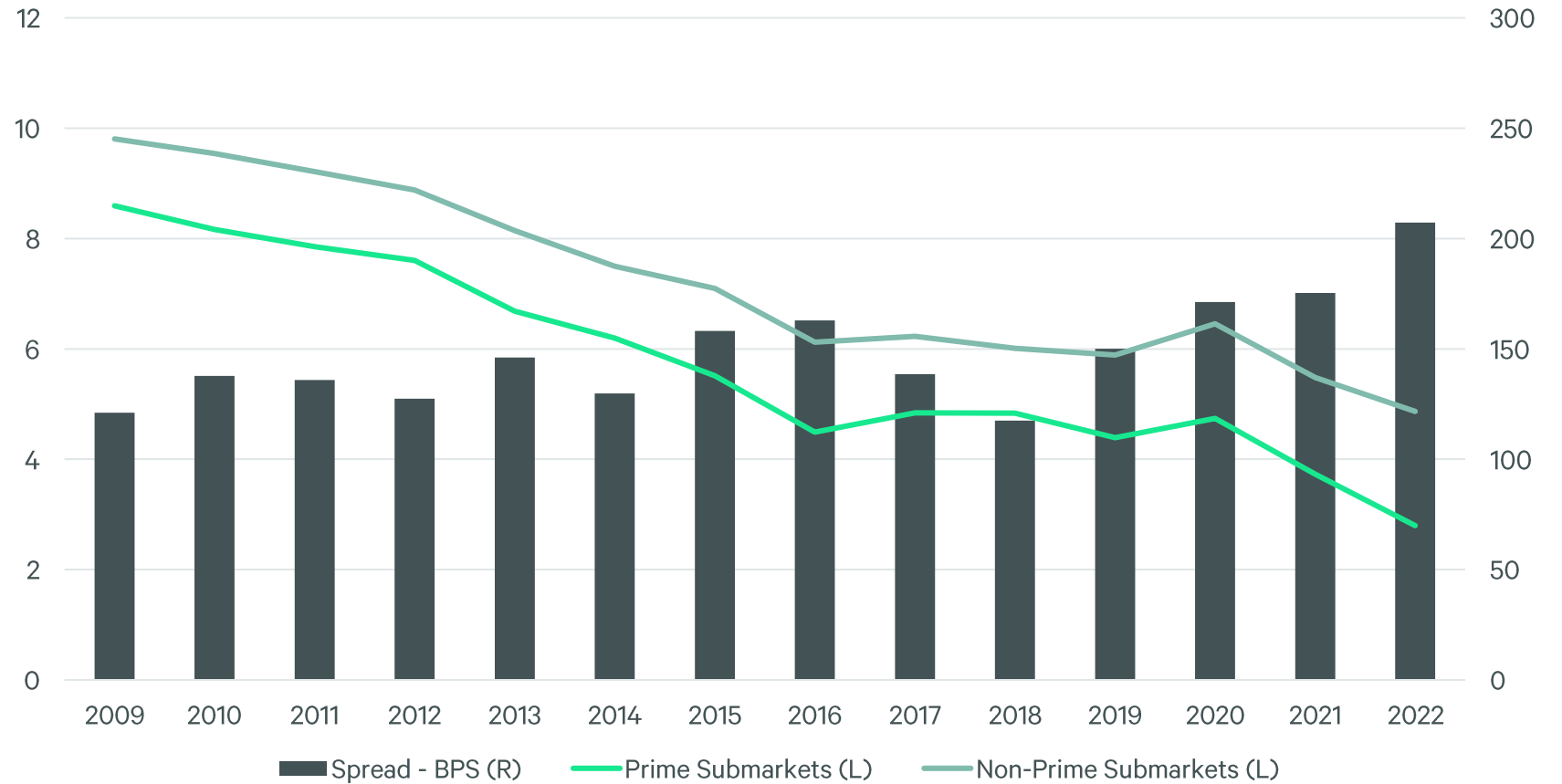
Quarterly, by % Availability and BPS Difference



Source: CBRE Econometrics Advisors, Q2 2023.

At the same time, the spread between availability in the tightest submarkets and the rest of the field continues to grow.

Retail Space Availability
By % Availability and Spread

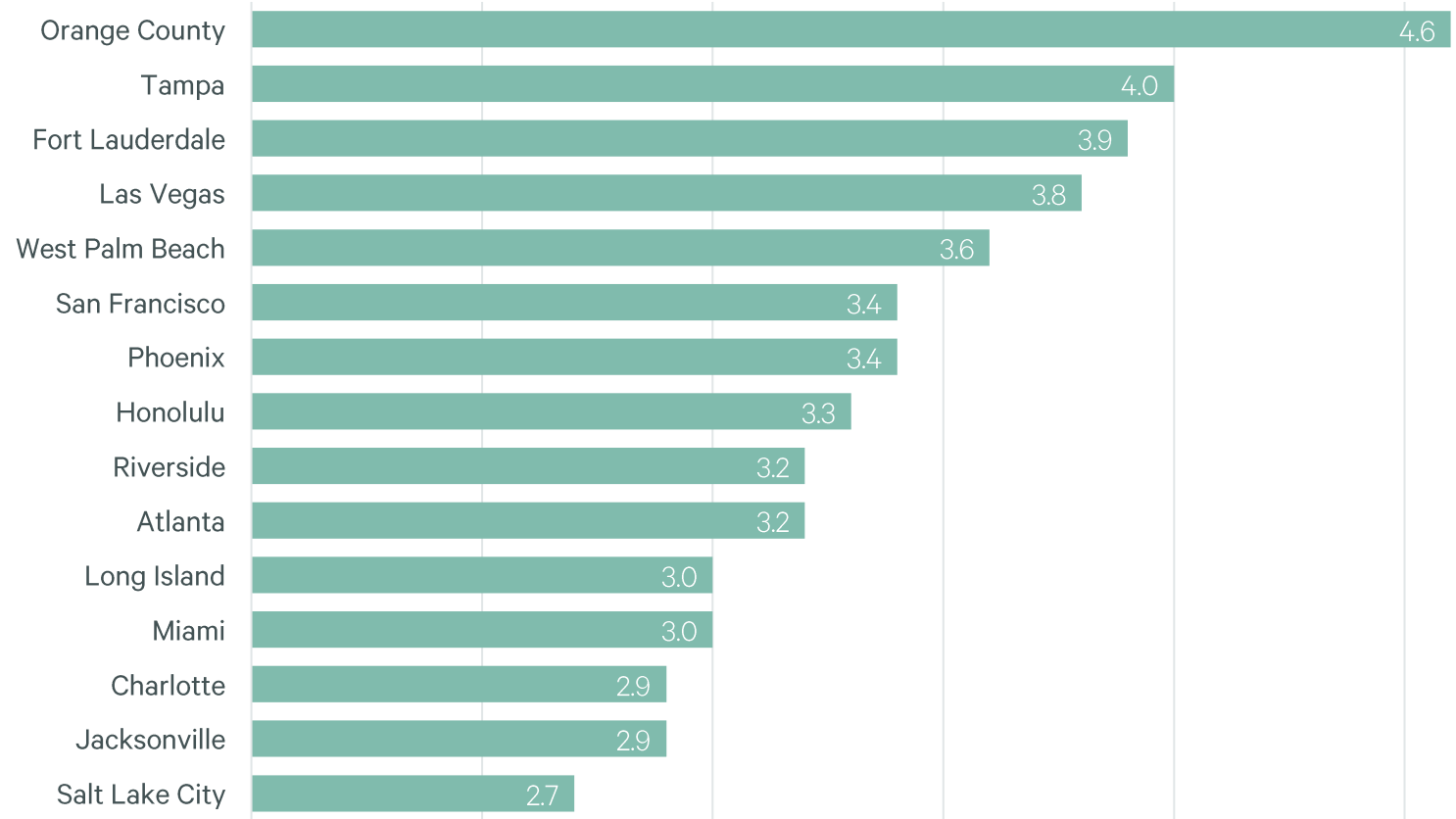


Source: Costar, St. Louis FRED, CBRE Research, Q4 2022.

Orange County continues to lead markets in forecasted rent growth, as Florida and western markets remain strong.

Asking Rent Growth Two-Year Forecast, Top 15 U.S. Markets

% Growth CAGR, By Market

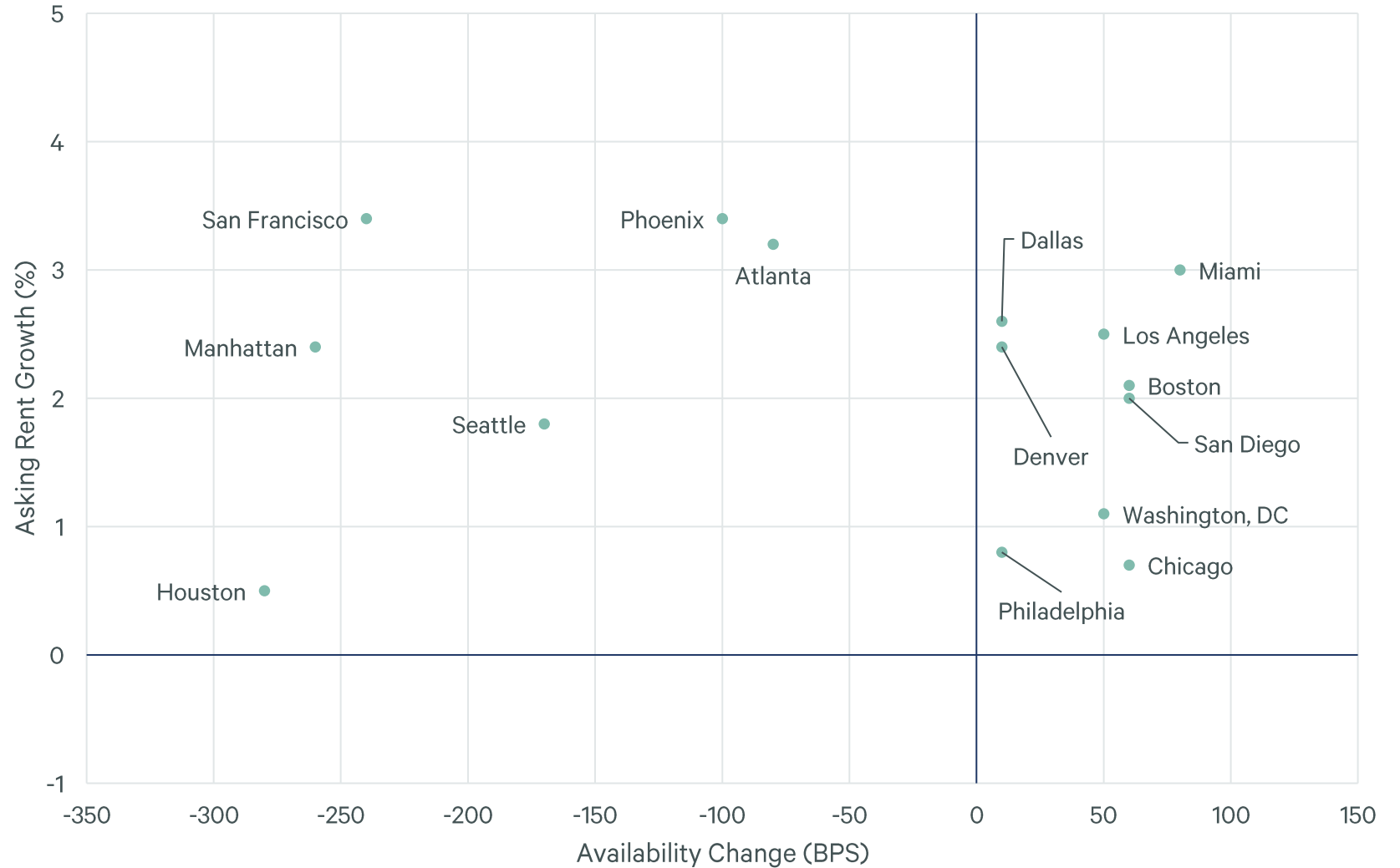


Source: CBRE Econometrics Advisors, Q2 2023

Where do primary markets fall regarding future rent and availability growth?

Of the primary markets, those in the upper left quadrant are forecasted to perform the best regarding rent growth and availability change.

Rent Growth (CAGR) vs. Change in Availability, 2-Year Forecast

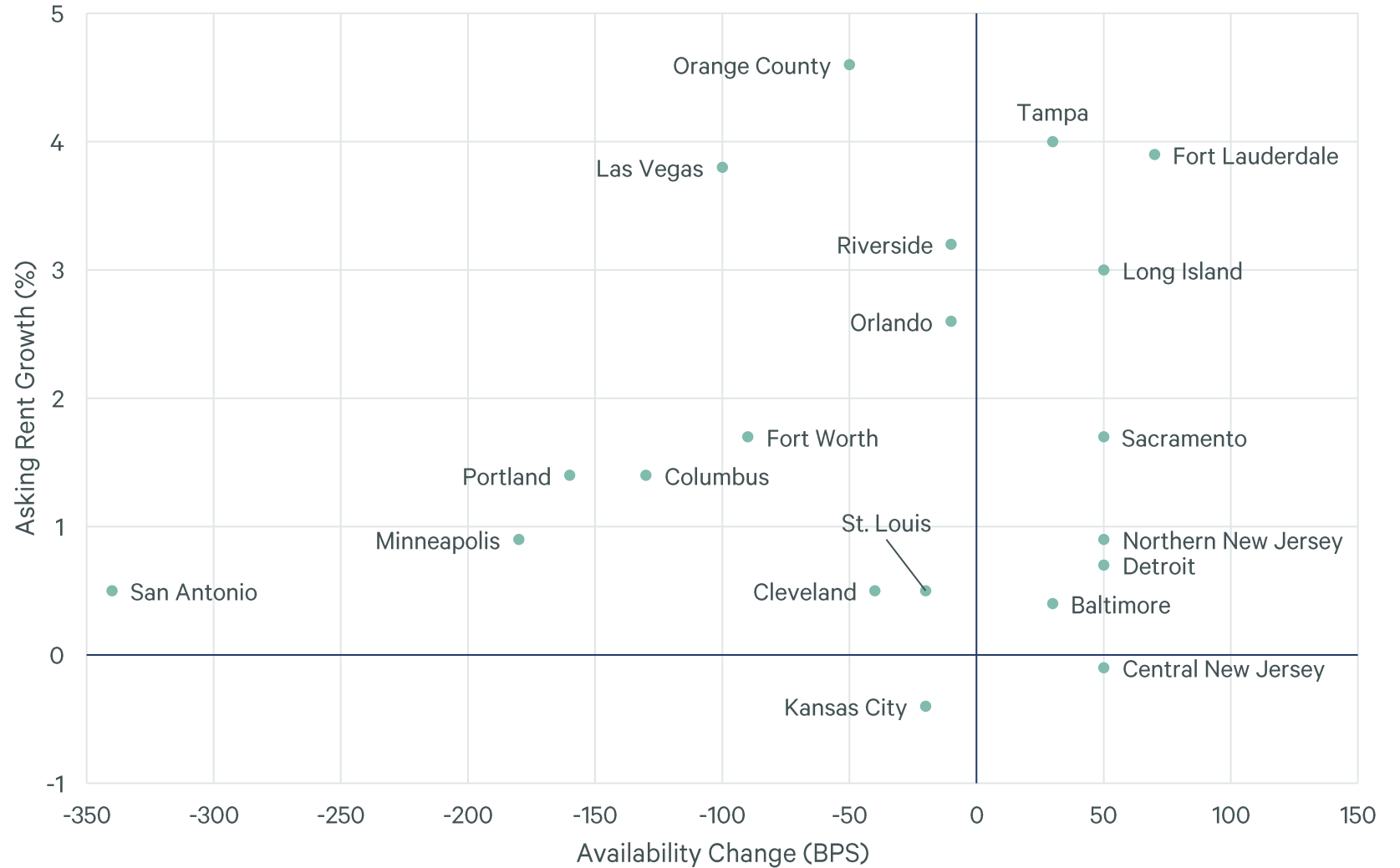


Primary markets include the top markets in total supply of neighborhood, community, and strip centers, plus Manhattan and San Francisco.
Source: CBRE Econometrics Advisors, Q2 2023.

Where do secondary markets fall regarding future rent and availability growth?

Of the secondary markets, those in the upper left quadrant are forecasted to perform the best regarding rent growth and availability change.

Rent Growth (CAGR) vs. Change in Availability, 2-Year Forecast

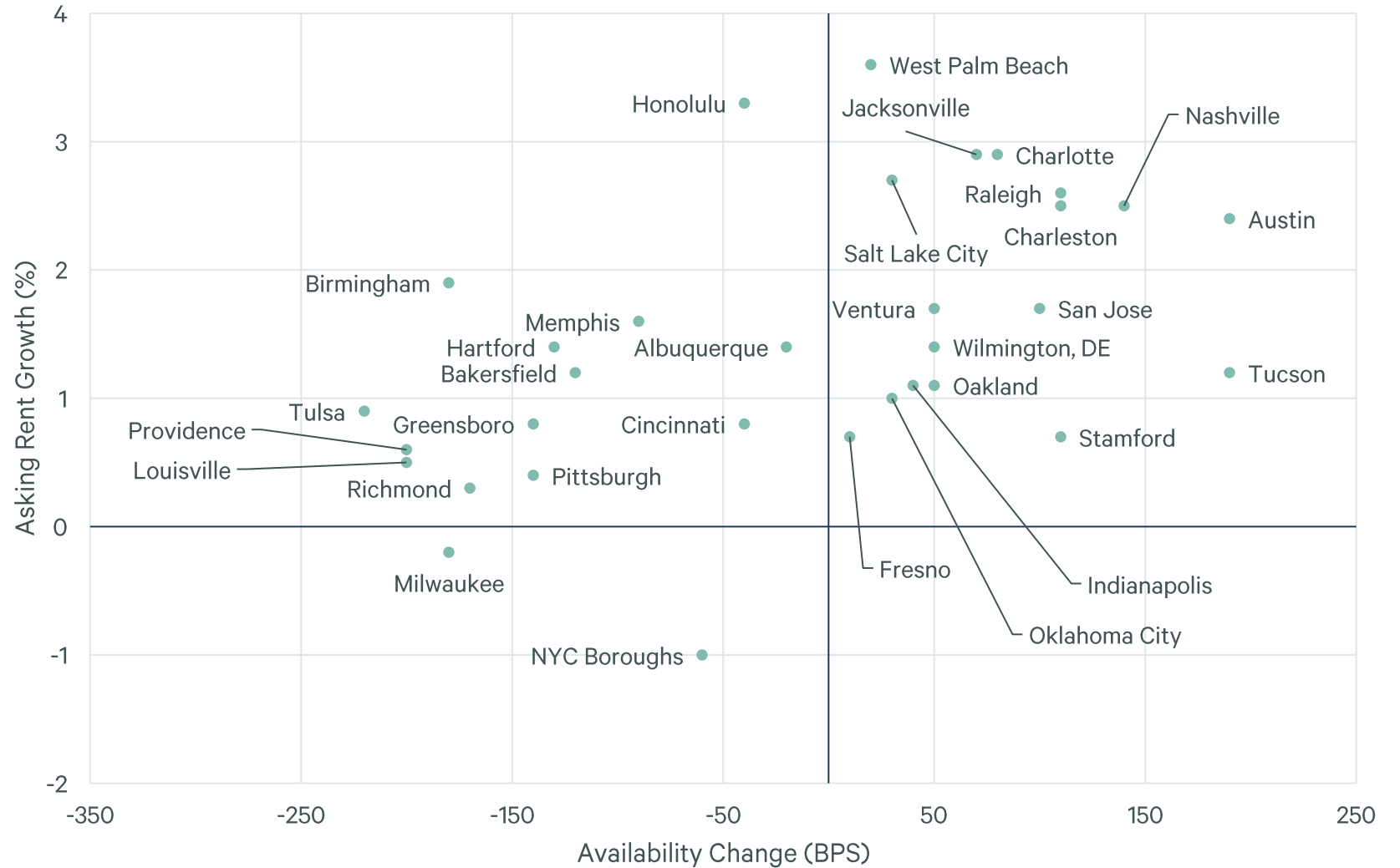


Secondary markets include markets between 40 and 60 million sq. ft. of neighborhood, community, and strip centers, and Riverside, Detroit, and Orange County.
 Source: CBRE Econometrics Advisors, Q2 2023.

Where do tertiary markets fall regarding future rent and availability growth?

Of the tertiary markets, those in the upper left quadrant are forecasted to perform the best regarding rent growth and availability change.

Rent Growth (CAGR) vs. Change in Availability, 2-Year Forecast

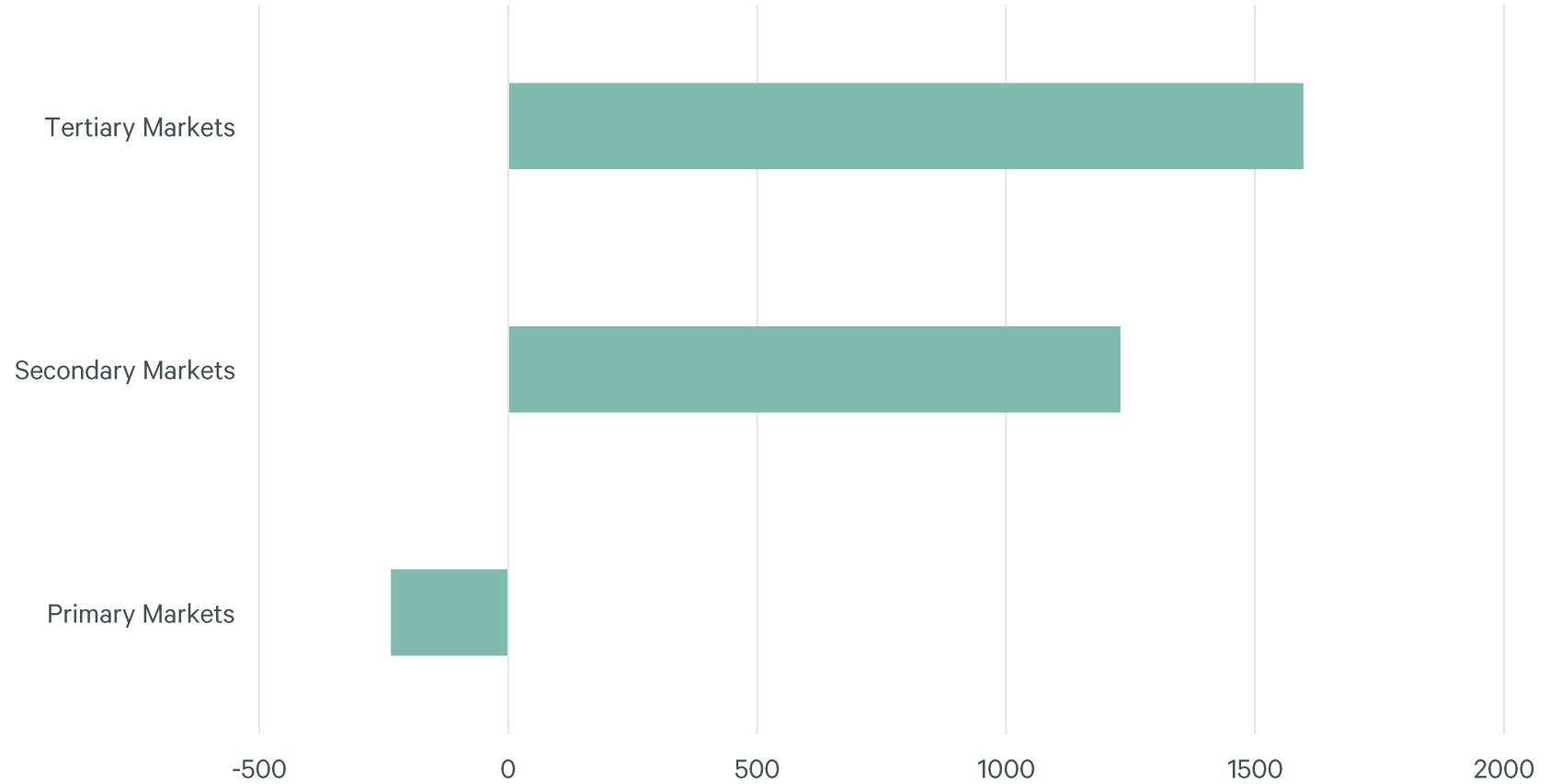


Tertiary markets include all markets below 40 million sq. ft. of neighborhood, community, and strip centers.
 Source: CBRE Econometrics Advisors, Q2 2023.

Net Migration by Market Grouping, 2019-2022

In Thousands of Persons

Despite representing just 34% of total population in the U.S., tertiary markets accounted for 62% of total migration from 2019 to 2022.



Source: Oxford Economics, Q1 2023.

Tertiary markets have quietly outperformed the field in retail availability since 2018.

Retail Availability by Market Type

By % Available



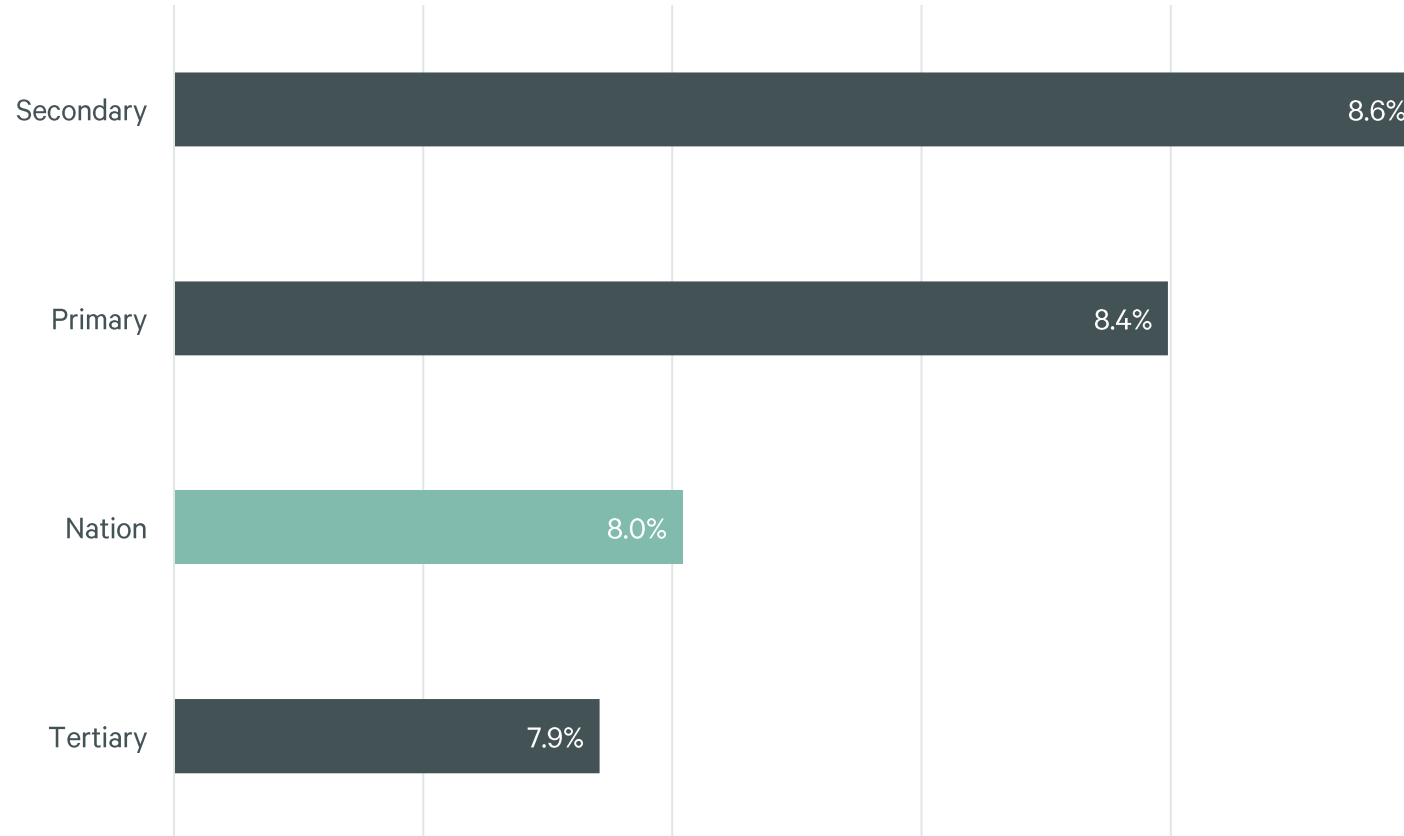
Source: Oxford Economics, Q2 2023.

Will wealth follow?

Tertiary markets remain behind investment income growth in primary and secondary markets.

Investment Income Growth by Market Grouping, 2019-2022

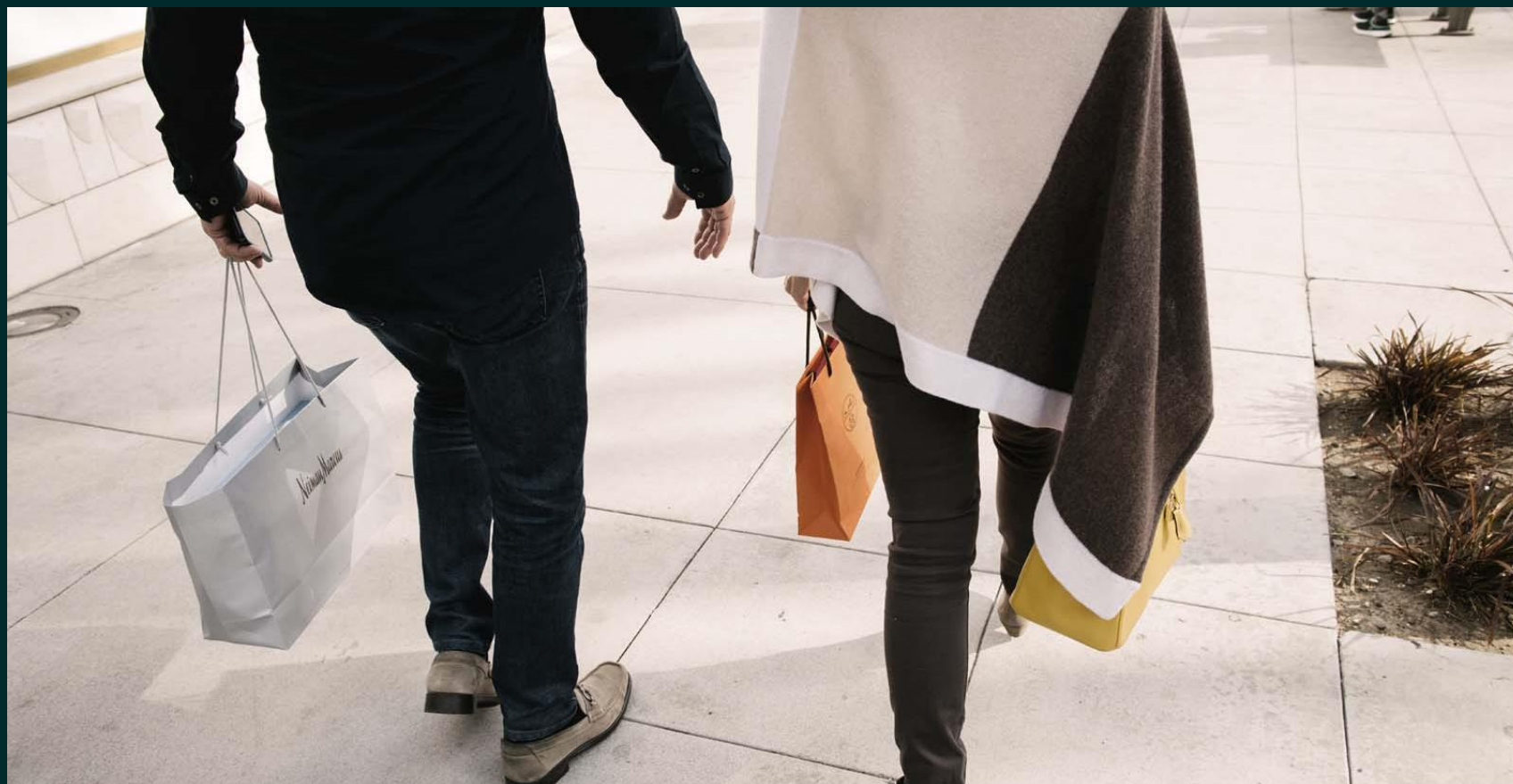
In % growth of income derived from rents, dividends, and interest



Source: Oxford Economics, Q1 2023.

Global Consumer Survey

7





Consumers living outside of central city areas and business districts prefer in-person shopping more than those who live in central city/CBD districts.



Gifts are one of the few categories where online shopping is the dominant share.



Some consumers are willing to pay a premium for quicker delivery of their online orders—depending on who you ask.



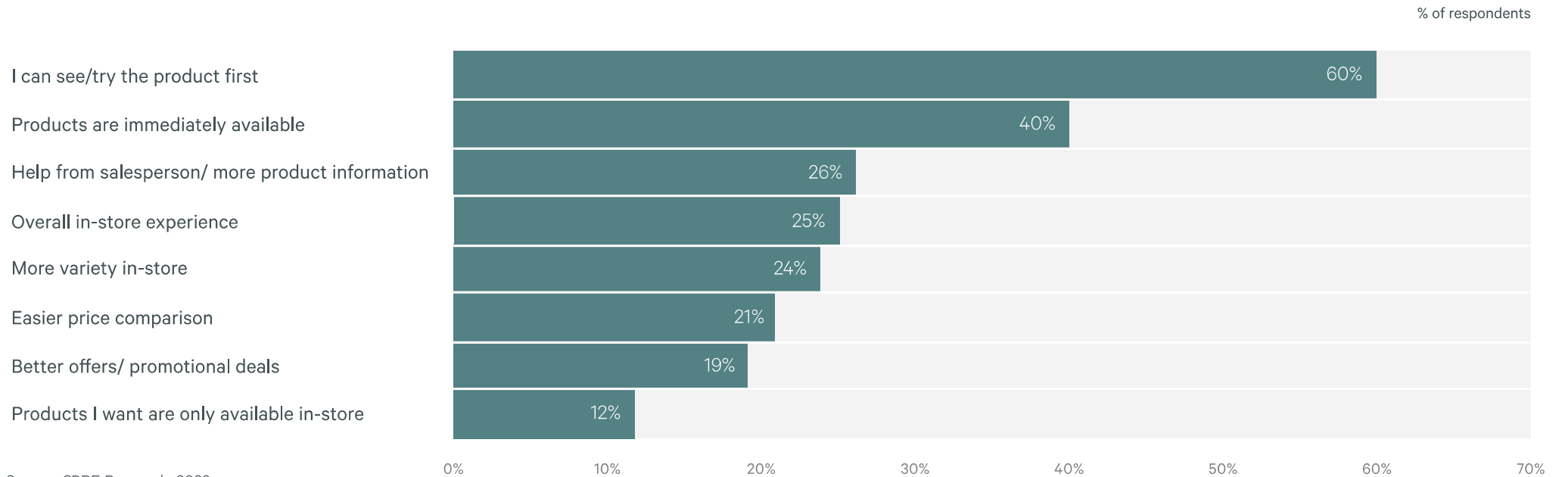
More leisure time and food-to-go are standouts on how lives have changed post-pandemic.



Consumers across all levels of educational attainment are making efforts to try and consume less.

Product, not experience, remains key to brick-and-mortar retail

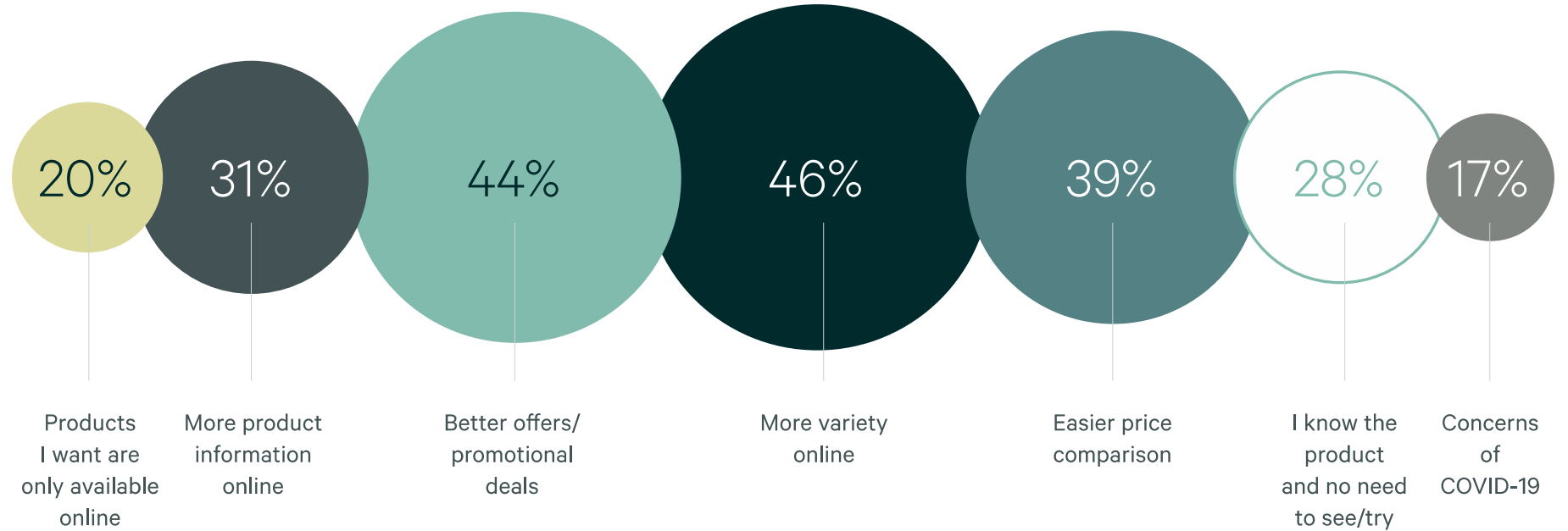
Reasons for preferring to purchase products offline



Source: CBRE Research, 2022.

Online offers more variety and promotional deals

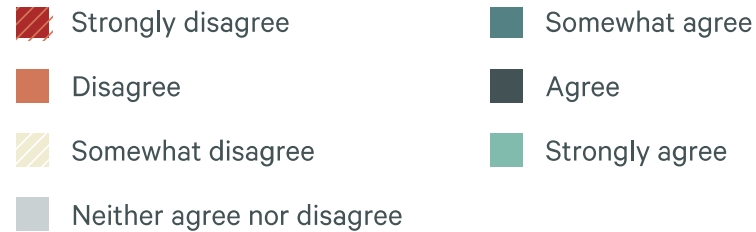
Reasons for preferring to purchase products online



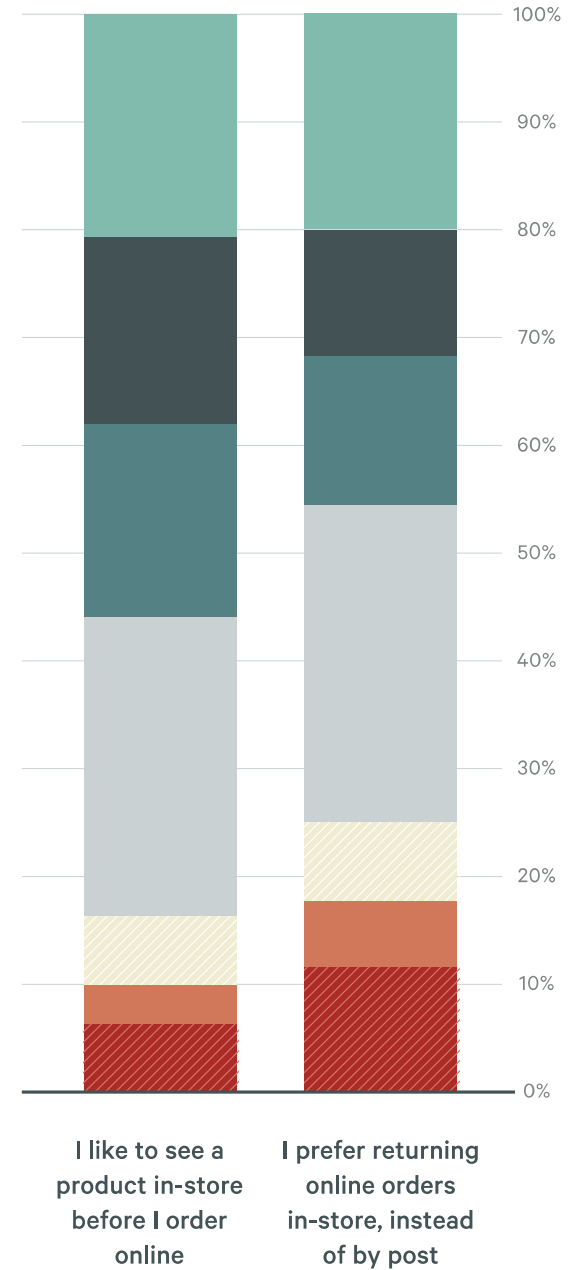
Source: CBRE Research, 2022.

The role of the store continues to evolve

How much do you agree with the following statements?



Source: CBRE Research, 2022.



Contact

Brandon Isner (he/him)

Head of Retail Research
CBRE | Americas Research
777 Brickell Avenue, Suite 1100
Miami, FL 33131
T +1 305 381 6407
M +1 216 334 8441

brandon.isner@cbre.com
[LinkedIn](#) | [Twitter](#)
www.cbre.com/insights/retail-insights

Daniel Diebel (he/him)

Retail Economist
CBRE | Econometrics Advisors
1300 SW Fifth Avenue, Suite 3500
Portland, OR 97201
M +1 775 412 7000

Daniel.diebel@cbre.com
[LinkedIn](#)
www.cbre-ea.com

This presentation has been prepared in good faith based on CBRE's current views of the commercial real-estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE's control. In addition, many of CBRE's views are opinion and/or projections based on CBRE's subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE's current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this presentation should be construed as an indicator of the future performance of CBRE's securities or of the performance of any other company's securities. You should not purchase or sell securities – of CBRE or any other company – based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this presentation, you waive all claims against CBRE and the presenter as well as against CBRE's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.