United States
Retail Market Dynamics

Heightening competition for space gives landlords leverage

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Research

United States

Q2 2024

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Executive summary

- Retail net absorption jumped 75.4% quarter-over-quarter to 7.7 million square feet – due mostly to a reduction in move-outs as well as more space taken in community centers, lifestyle centers and Class C malls.

- As more tenants compete for limited retail space, the anticipated closure of thousands of pharmacies – primarily Walgreens – as well as Family Dollar locations will open up more availability for freestanding retail.

- Landlords are wielding much greater pricing power, often holding firm in rent negotiations. They are also being more selective in their choice of tenants.

- Small spaces continue to dominate new leases inked during the second quarter, heavily propelled by QSRs. Wingstop, Jersey Mike's and Starbucks are a few of the F&B tenants who signed new deals.

- There is growing confidence that retail capital markets transactions will stabilize in the second half of the year, leading to an increase in investment activity. With lower-than-expected inflation in June, market watchers are optimistic that the Federal Reserve will make a rate cut in September.

01

Economic and retail real estate fundamentals

U.S. retail economy trends

Inflation

3.0% ↓

Consumer price index growth fell to 3.0% above year-ago levels in June – a 0.1% decline from the previous month. If the pace of inflation continues heading downward, consumers may begin to feel more optimistic about the future.

Consumer sentiment

66.0 pts ↓

Consumer sentiment (University of Michigan index) inched down again in June, as consumers remain wearied by elevated prices. The reduction of the inflation rate in June may act as a stabilizer for sentiment, particularly if followed by a continued slowing of pace.

Quarterly retail sales

0.0% →

Retail sales were flat in June from the previous month and inched up slightly by 2.3% year-over-year. However, back-to-school categories saw meaningful gains, including electronics, apparel, and department stores.

Retail fundamental statistics Q2 2024

Fundamentals	General retail	Mall	Power center	Neighborhood center	Strip center	Other	All
Inventory SF	6,641,528,800	900,926,159	790,605,486	2,978,004,347	709,719,312	93,322,258	12,128,844,998
Vacancy rate	2.5%	8.7%	4.3%	5.9%	4.6%	4.9%	4.1%
Net absorption SF	6,650,042	(746,400)	1,196,841	(29,665)	593,738	(701)	7,702,288
Net delivered SF	5,481,658	(262,777)	643,417	455,002	424,222	180,000	6,962,297
Under construction SF	34,400,128	2,837,295	935,295	6,693,358	3,228,828	825,001	50,301,820
Market asking rent/SF	$24.14	$33.67	$26.72	$24.19	$23.00	$29.37	$25.02
Market asking rent growth Q/Q	0.1%	0.4%	0.7%	0.7%	0.5%	0.6%	0.3%
Market asking rent growth Y/Y	2.1%	2.4%	3.3%	3.5%	3.0%	2.6%	2.6%

Source: CoStar - National index markets

02

Tight availability gives landlords the edge

U.S. retail RE fundamentals snapshot

1

Demand

Competition for prime space escalates as availability remains minimal. Tenants are snatching up available space in record time – with average months to lease dropping to new low of 8.5 months.

2

Rents

Landlords are wielding much greater pricing power, often holding firm in rent negotiations. Markets in the South and Southwest continue to see some of the strongest rent gains, propelled by consumption-driven demand and population growth.

3

Supply

Construction starts are at a record low, and availability is 210 basis points below its historical average of 6.8%. There is no immediate hope for relief as higher construction and financing costs are dissuading developers from green-lighting new projects.

4

Capital markets

National retail transactions faced challenges in the first half of the year, driven by the combination of high debt costs and uncertainty surrounding monetary policy.

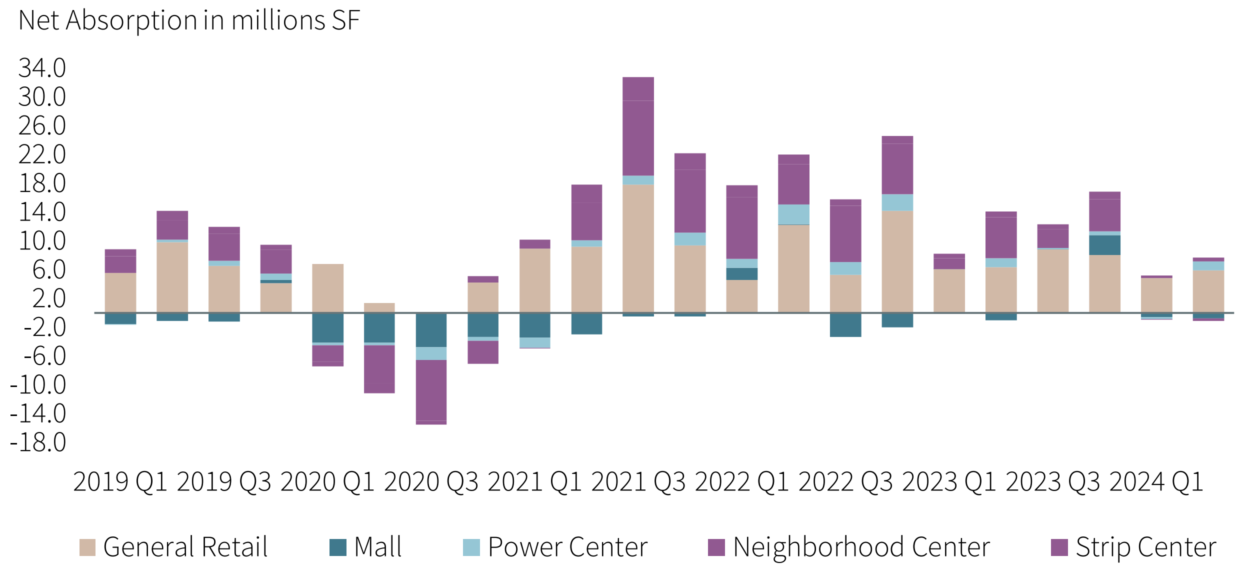
Tenants vacate less space in Q2

Retail net absorption jumped 75.4% quarter-over-quarter to 7.7 million square feet – due mostly to a reduction in move-outs as well as more space taken in community centers, lifestyle centers and Class C malls. In fact, move-outs have declined some 20% since 2021. Leasing activity was pretty much on par with the previous quarter, and the percentage of available space leased over the last 12 months is roughly 33%.

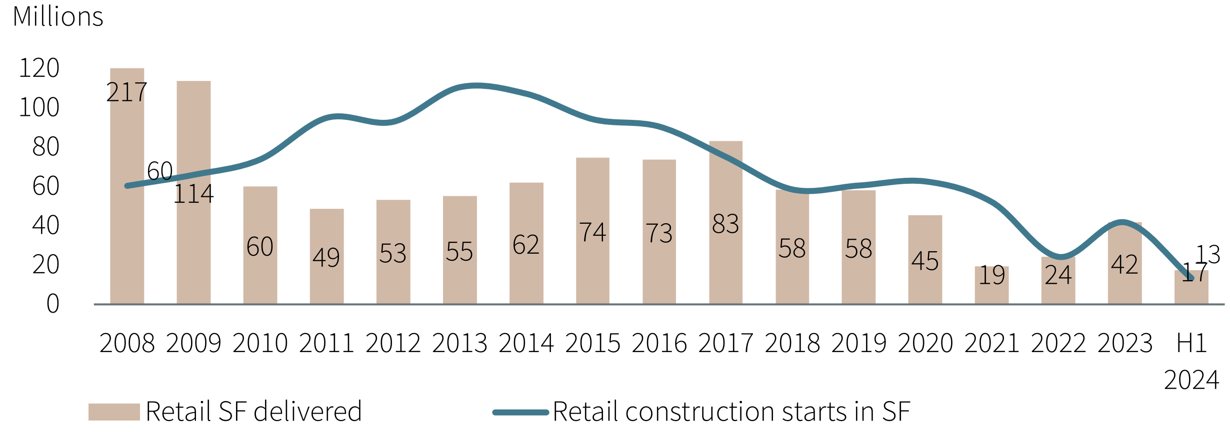
Construction activity remains minimal. Deliveries fell 37.0% from the previous quarter, and construction starts fell 20.8% to a historic low, indicating there will be no immediate relief to the supply crisis. With retail space availability at 4.7%, landlords are gaining more leverage in pricing power. Rents are still on the rise, increasing 0.3% from the previous quarter and 2.6% year-over-year, but the pace of growth continues to slow since its high in 2022.

As more tenants compete for limited retail space, the anticipated closure of thousands of pharmacies – primarily Walgreens, by 2027 – as well as Family Dollar locations will open up more availability for freestanding retail, which has the lowest availability rate of all at 3.3%. The total square footage impact of such anticipated closures will free up roughly 22 million square feet of space, ideal for junior anchor tenants (10,000 – 20,000 square feet) looking to expand.

Net absorption jumps in the second quarter



Construction starts at low



Source: CoStar, JLL Research

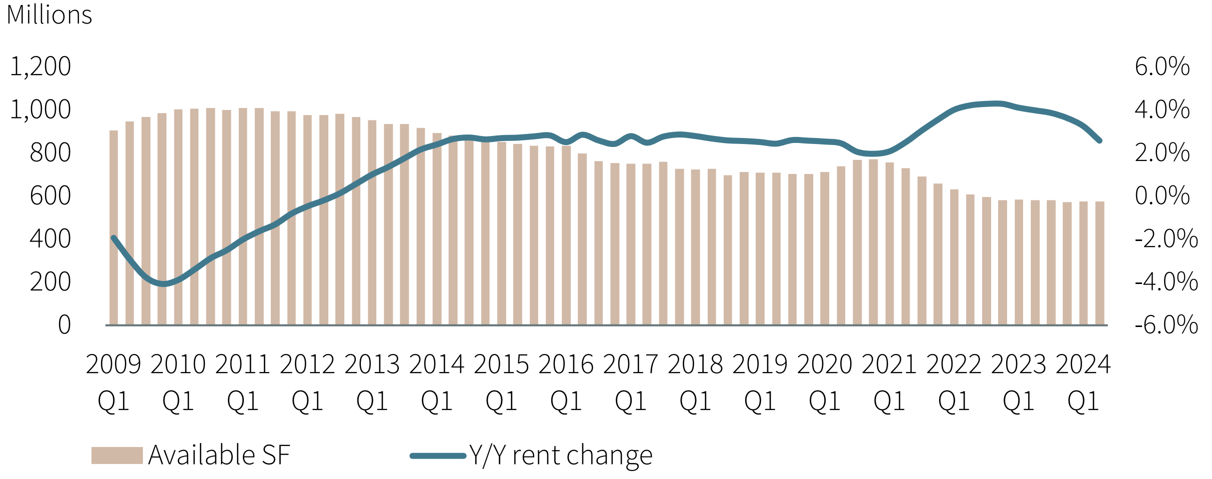
Record-low availability gives landlords leverage

Retail space available for lease has decreased almost 200 million square feet from its pandemic high in 2020, and more than 400 million square feet since its high after the Great Recession. With intense competition among tenants attempting to nab prime locations, conditions have tilted to a landlord-favorable market.

As a result, not only do rents continue to rise, but expanding retailers are also jumping on spaces as soon as – and sometimes even before – they become available. Over 80% of retail spaces listed over the last year have been leased within six months; nearly half have been leased within a mere three months. Hence, the average time from space listing to lease execution has compressed to 8.5 months – the swiftest pace in over two decades.

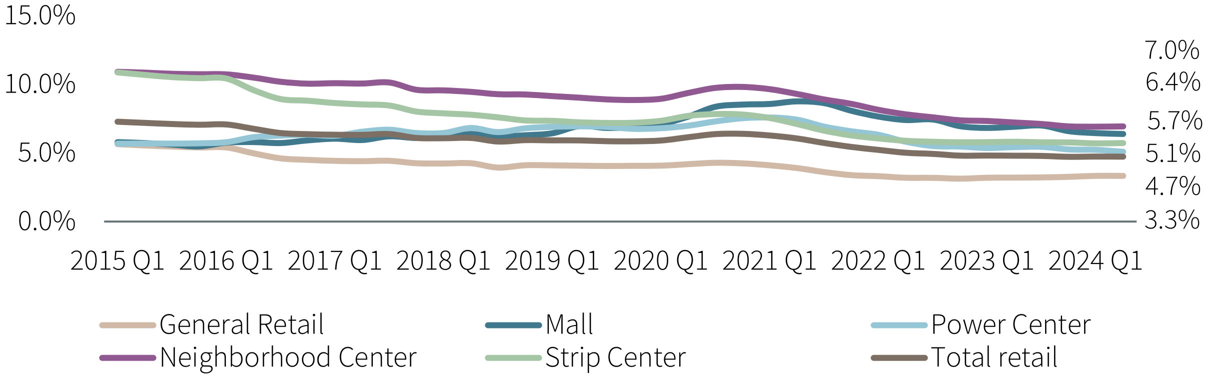
Landlords are wielding much greater pricing power, often holding firm in rent negotiations. They are also being more selective in their choice of tenants. Markets in the South and Southwest continue to see some of the strongest rent gains, propelled by consumption-driven demand and population growth.

Rents continue to rise as availability plummets



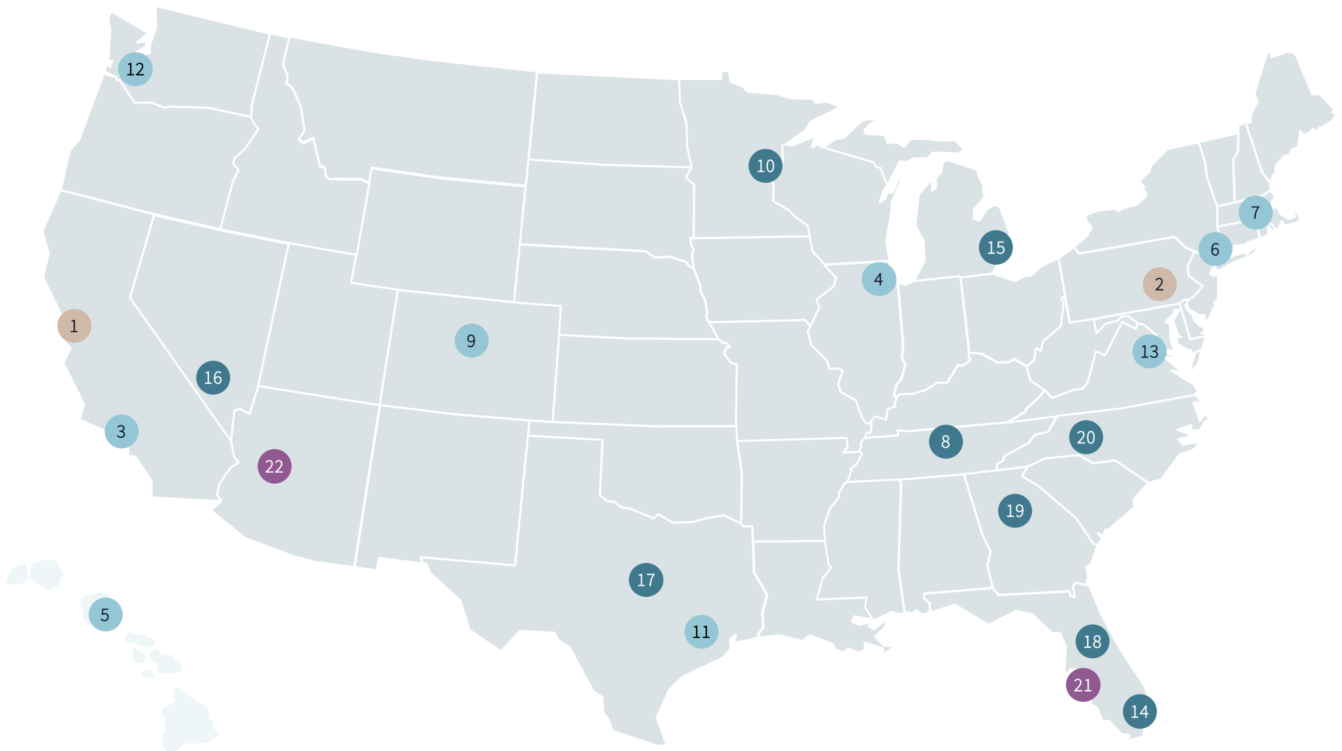
Availability tightens across the board

Availability rates across retail property subtypes



Source: CoStar, JLL Research

Major metros see positive rent growth with strongest in Sun Belt markets



1	San Francisco	↓	-2.5%	12	Seattle	↑	2.7%
2	Philadelphia	↓	-1.1%	13	Washington, D.C.	↑	2.7%
3	Los Angeles	↓	0.0%	14	Miami	↓	3.8%
4	Chicago	↓	0.3%	15	Detroit	↑	4.0%
5	Honolulu	↑	0.6%	16	Las Vegas	↓	4.5%
6	New York	↓	1.0%	17	Dallas	↓	4.7%
7	Boston	↑	1.2%	18	Orlando	↓	5.1%
8	Nashville	↓	1.4%	19	Atlanta	↓	5.3%
9	Denver	↑	1.5%	20	Charlotte	↓	5.8%
10	Minneapolis	↓	1.5%	21	Tampa	↓	6.3%
11	Houston	↓	1.8%	22	Phoenix	↓	7.4%

Y/Y % rent change

< 0.0%
0.0% - 3.0%
3.1% - 6.0%
> 6.0%

Movement from previous quarter

↑ ↓ →

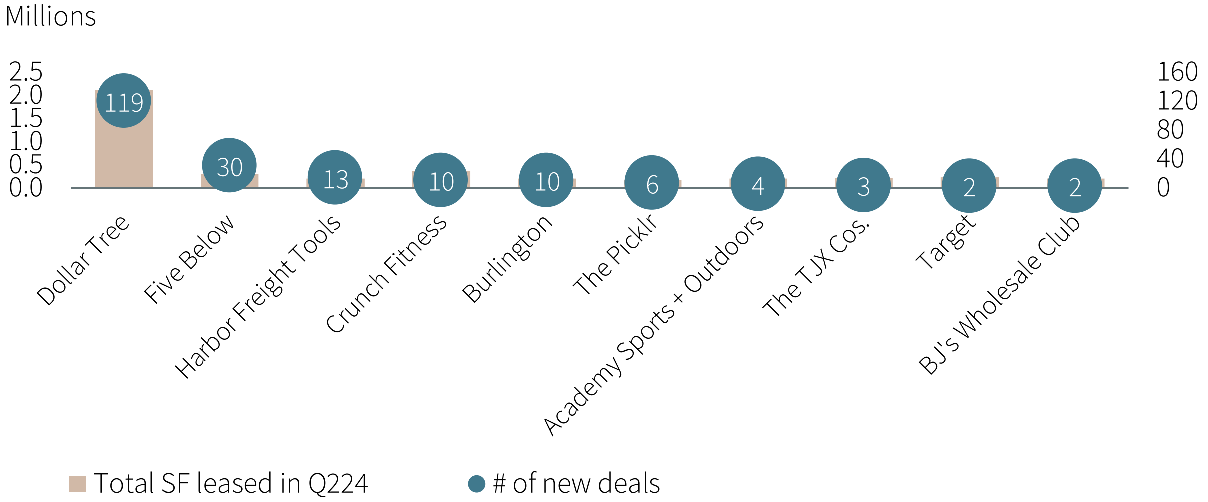
Source: CoStar

Dollar Tree has very active quarter

While Dollar Tree previously announced that they are shedding 970 underperforming Family Dollar locations, the retailer is also focused on expanding its own name brand stores, as desirable locations open up. The dollar brand has signed new deals and acquired 170 leases vacated by bankrupt dollar store, 99 Cents Only. New deals signed by Dollar Tree will result in over 2 million square feet of new retail space for the retailer. In fact, Dollar Tree was the most active company to sign new leases for three separate space brackets: 5,000 – 10,000 square feet, 10,000 – 20,000 square feet and 20,000 – 50,000 square feet. Other discount-focused retailers also active this quarter were Five Below, Burlington and The TJX companies.

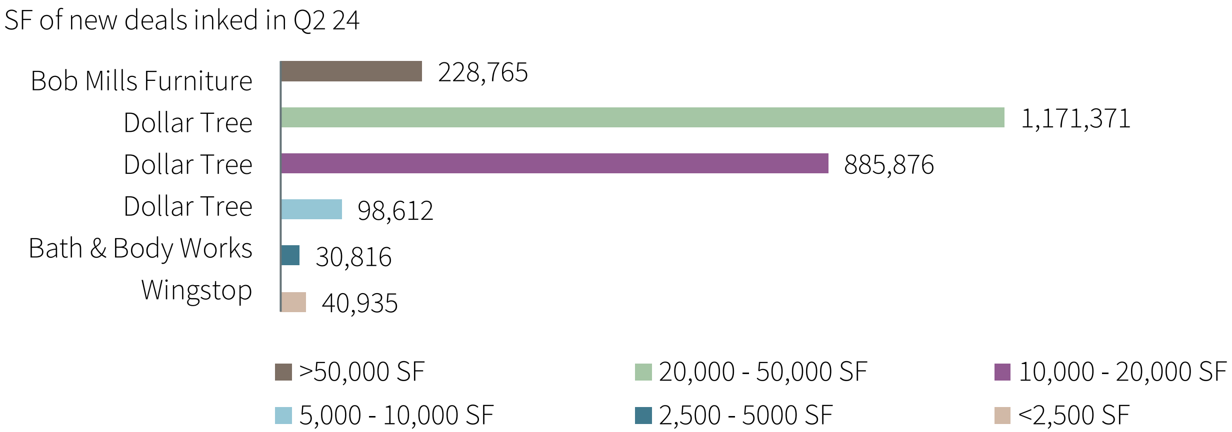
Small spaces continue to dominate new leases inked during the second quarter, heavily propelled by QSRs. Wingstop, Jersey Mike's and Starbucks are a few of the F&B tenants who signed new deals. Other tenants who signed small-space deals include Xponential Fitness, AT&T and Verizon.

Top retailers who signed new leases in Q2 2024



Source: CoStar, JLL Research

Most active retailers by space size



Source: CoStar, JLL Research

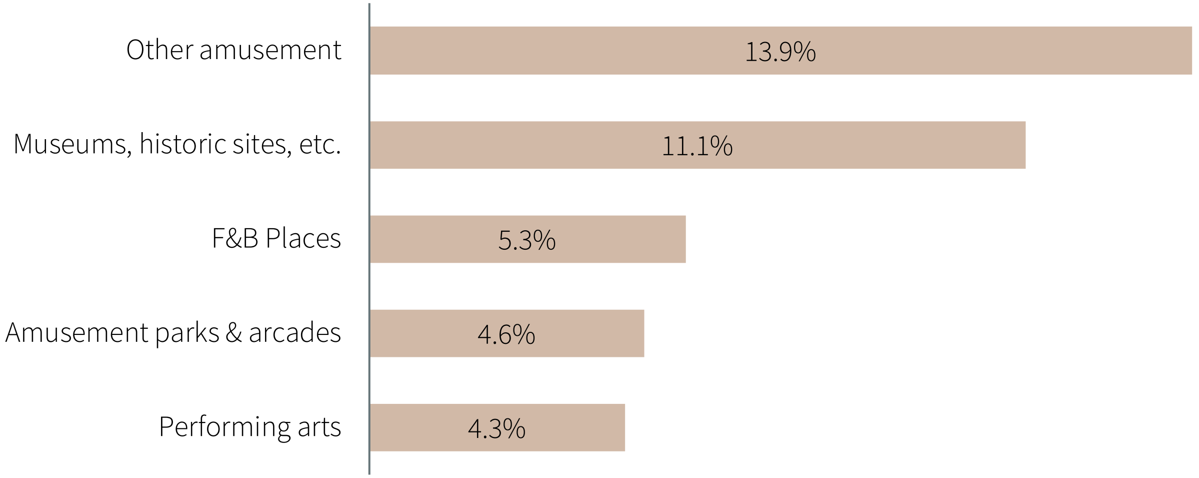
03

Experience spending grows

Spending on experiences sees continued growth

Consumer spending on entertainment saw year-over-year growth in the second quarter. This underscores the trend we have been seeing of consumers moving away from goods spending to service spending. Museums, food & beverage, amusement parks and performing arts all saw notable gains. However, the catch-all category, other amusement, which includes golf, fitness and bowling saw the highest increase from last year.

Y/Y change in sales Q223 – Q224



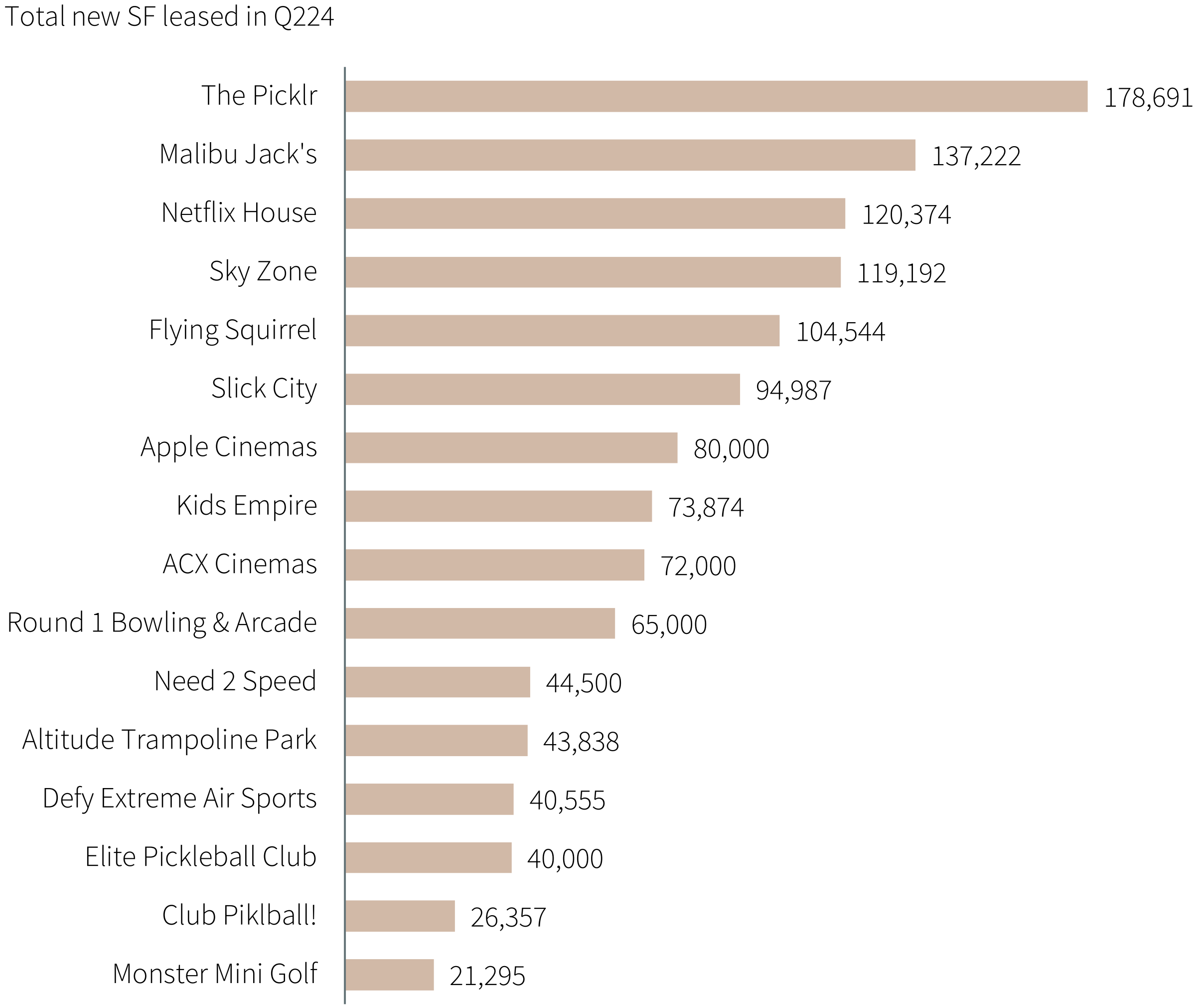
Source: US Census Bureau

Experiential tenants ink new deals

Experiential tenants continue to expand steadily in 2024, accounting for 15% of all leasing activity over the past two years. Fitness center openings continue to drive leasing numbers, with Crunch Fitness and Planet Fitness pacing growth. However, expansion in the experiential space is not limited to fitness.

Other entertainment concepts signing leases during the quarter include trampoline parks like Sky Zone and Altitude Trampoline Park, a pickleball franchise, The Picklr, and golf concepts like Monster Mini Golf and Holey Moley. Also of note, is the new deal inked for Netflix House for King of Prussia Mall in Pennsylvani, accounting for over 100,000 square feet of space.

Top experiential tenants who leased new space in Q2 2024



Source: CoStar, JLL Research
*excludes health clubs and boutique fitness concepts

04

Parents plan to spend more on back-to-school shopping

Parents willing to increase back-to-school spending to check off their lists

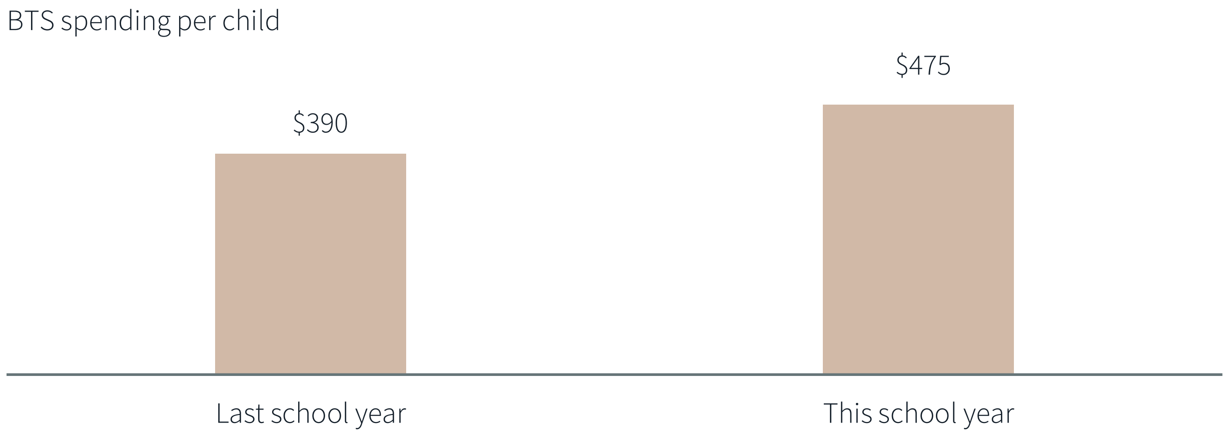
JLL recently released its annual Back to School shopping report. Here are some of our findings:

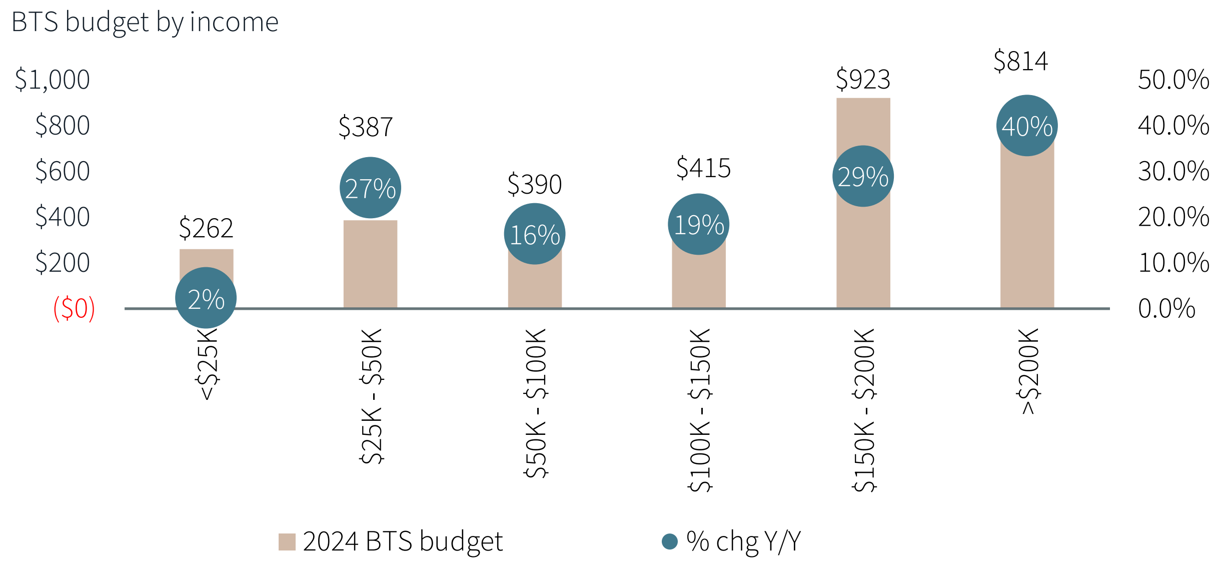
Parents are opening up their pocketbooks for back-to-school shopping this year.

Parents plan to spend 21.8% more on back-to-school shopping this year, considerably more than the year-over-year inflation rate of 3.4%.

What's more, parents in every major income bracket plan to spend more than they did last year, with wealthier households (earning over $150,0000) upping their budgets the most by 30%.

Parents will spend 21.8% more this year





Source: JLL Back to School Shopping Survey 2024

Parents will overwhelmingly head to stores

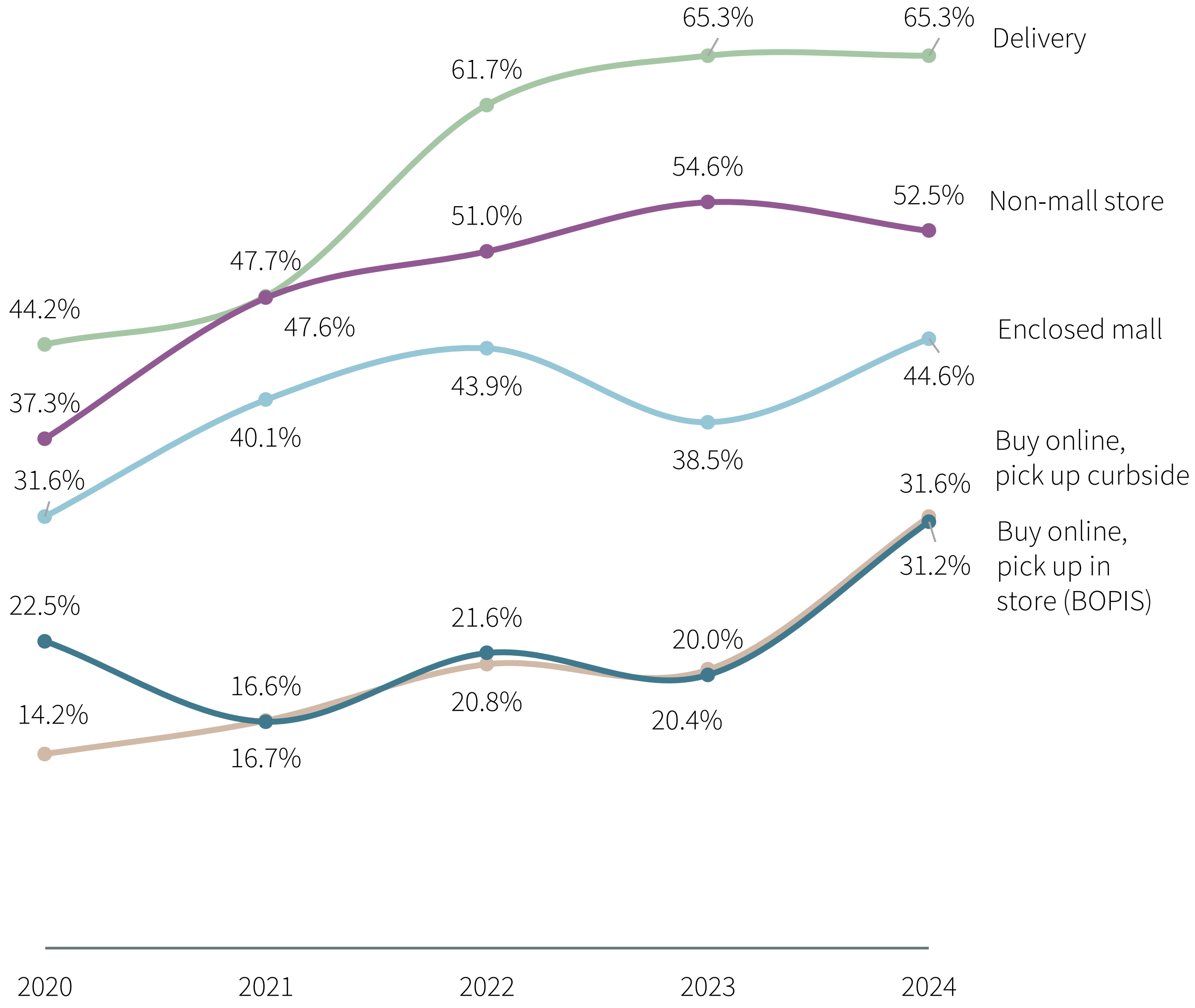
Once again, parents plan to use multiple methods to get their shopping done, with almost 70% of shoppers planning to employ 2 or more channels.

The proportion of parents who plan to shop at enclosed malls jumped over 6 percentage points from last year.

Likewise, buy online, pick up in store (i.e. BOPIS) and curbside have soared over 10 percentage points each in popularity as parents look to save time and energy.

Only 10% of parents shopping for back-to-school will exclusively order online for home delivery. Almost 90% of parents will interact with physical stores in some way for back-to-school shopping.

% of parents who will shop via a particular channel



Source: JLL Back to School Shopping Survey 2024

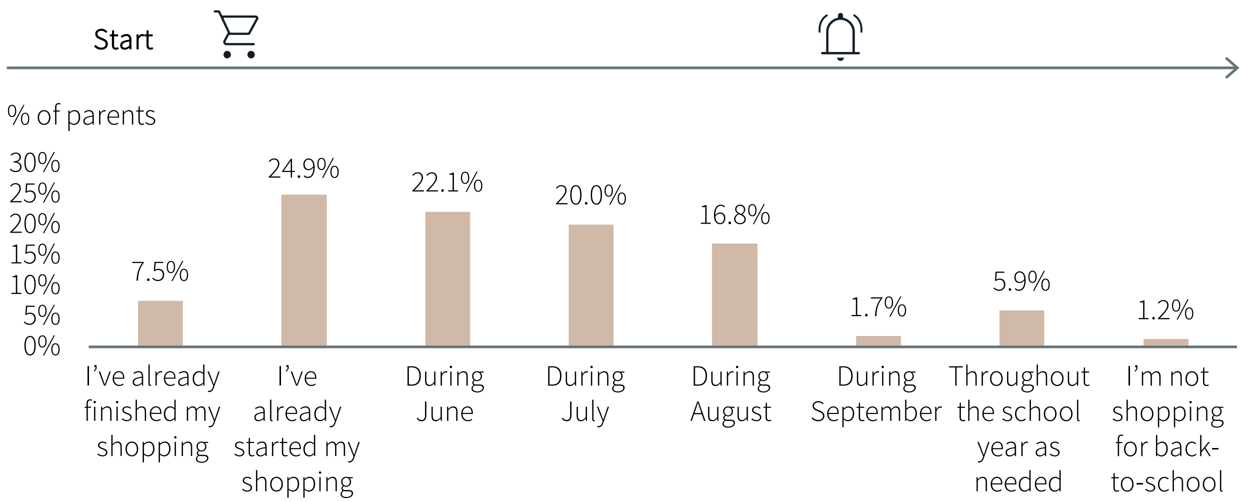
Parents want to get it done

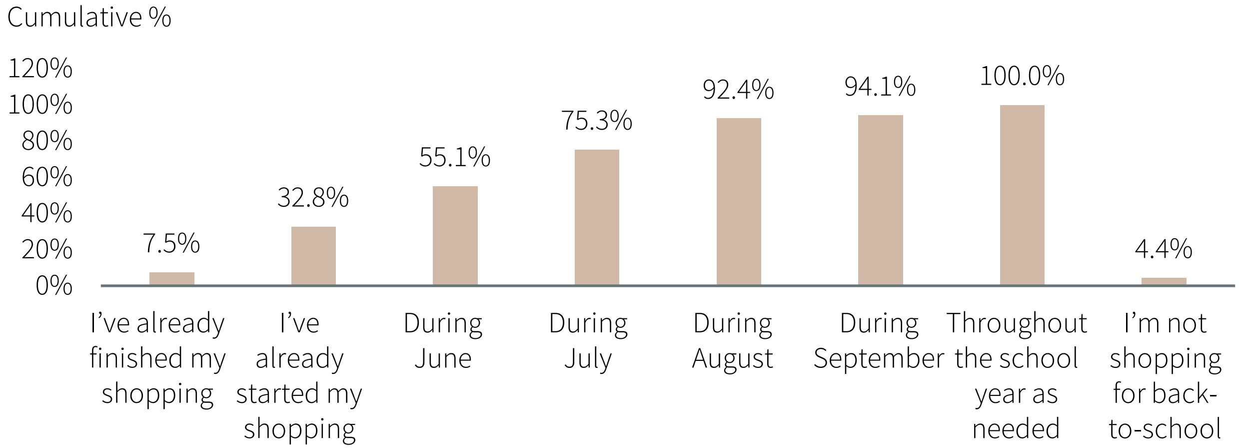
For the first time in years, the most popular time for starting back-to-school shopping was May – or earlier – instead of August. In fact, by Jul, more than 75% of parents will have started shopping for back-to-school.

Parents earning $50,000 - $150,000 were more likely to start early, while low-income shoppers were most likely to start in July, where sales are typically more prevalent. High-income shoppers were likely to start in June.

With shopping plans tilted earlier, we have already started to see evidence in the most recent census retail sales reports. While overall sales growth was flat, back-to-school categories like electronics, apparel and general merchandise saw meaningful month-over-month gains.

August remains most popular month for BTS shopping





Source: JLL Back to School Shopping Survey 2024

05

Retail investment activity to expand in second half

Retail investment activity to expand in second half

National retail transactions faced challenges in the first half of the year, driven by the combination of high debt costs and uncertainty surrounding monetary policy. Preliminary data suggests that the retail transaction volume in the first half of 2024 was 36% lower compared to both the previous year and 2019, amounting to $16 billion, including single-assets and portfolios.

The decline in transaction activity can be attributed to the Federal Reserve's implementation of a hawkish monetary policy, characterized by raising interest rates above 5% in 2023. This decision was driven by persistently high inflation, which further contributed to the slowdown in transaction activity since 2023.

Source: Real Capital Analytics
Note: *Pertains to single-asset and portfolio retail transactions $5M+.

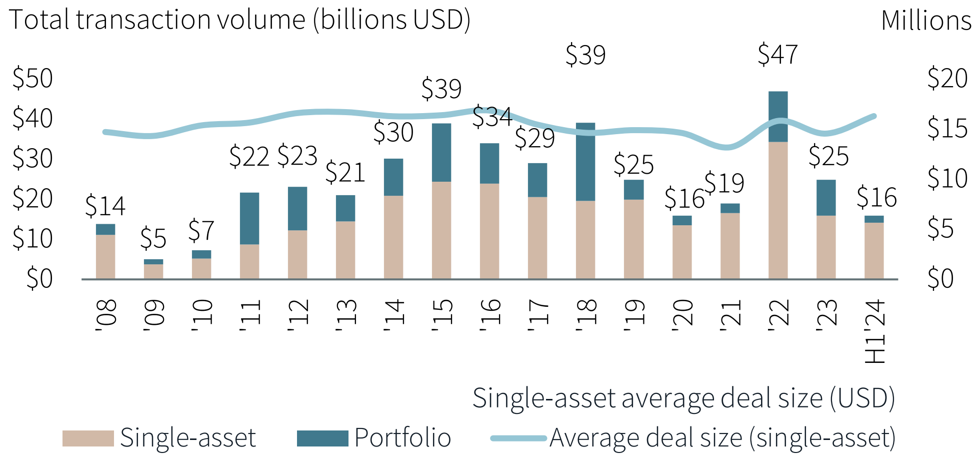
Retail sees growth in larger transactions

There is growing confidence that the capital markets dislocation affecting retail transactions will stabilize in the second half of the year, leading to an uptick in investment activity. This heightened sentiment is rooted in recent developments such as the Federal Reserve signaling a potential rate cut in September, driven by lower-than-expected inflation in June.

Furthermore, there is an impending surge in retail loan maturities, with over $70 billion reaching their maturity date in 2024 alone, which presents another catalyst for investment. Lastly, the higher cost of construction compared to the cost of acquiring retail properties creates an incentive for short-term investments, as the current discount to replacement cost remains favorable.

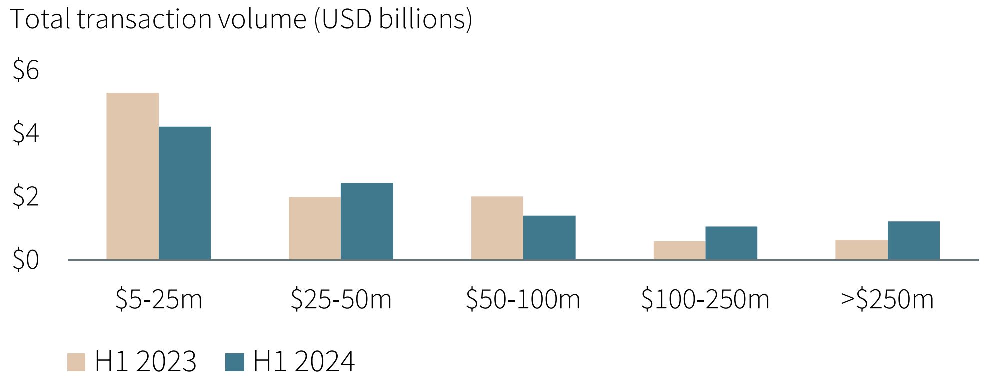
Heightened investor sentiment is further demonstrated by the notable rise in larger national retail transactions. In the first half of the year, the average deal size for single-asset and multi-tenant retail transactions increased by 12% compared to the previous year, reaching $16.2 million. This marks the highest average deal size for single-asset retail in the past eight years. The notable transactions that contributed to the higher average deal price include the sale of the high street, urban 717 Fifth Avenue asset for $963 million and the Fair Oaks Mall for $265 million. These deals resulted in almost a two-fold increase in the volume of transactions with deal sizes of $250 million and above compared to the previous year. The resurgence of activity in CMBS and SASB markets, with a notable increase of 180% year-over-year, is expected to facilitate the completion of more significant transactions in the latter part of the year.

H1 total U.S. retail transaction volume, H1 2008 – H1 2024



Source: JLL Research, Real Capital Analytics
Notes: Data pertains to single-asset and portfolio retail transactions, including entity-level ($5.0M+). H1.

Breakdown of total single-asset volume by deal size: H1 2023 vs H1 2024



Source: JLL Research, Real Capital Analytics
Notes: Data pertains to multi-tenant, single-asset retail transactions, excluding entity-level ($5.0M+). H1 2024 data is preliminary as of mid-July 2024.

06

Retail property subtype performance

Retail property definitions

Retail subtype	Definition	Examples
General retail	Consists of single-tenant freestanding general-purpose commercial buildings with parking	Drug stores, some groceries, streetfront urban retail stores
Malls	Includes Lifestyle Centers, Regional Malls and Super Regional Malls	Primarily anchored by mass merchants, fashion and department stores
Power centers	Consists of several freestanding anchors with minimal small tenants 250,000 – 600,000 s.f.	Primarily anchored by big box tenants and discount supercenters
Shopping centers	Includes Community Centers, Neighborhood Centers and Strip Centers	Primarily anchored by groceries and local services
Specialty center	Consists of the combined retail center types of Airport retail, Outlet center and Theme/Festival center	Primarily anchored by manufacturers' and retailers' outlets
Total retail	All retail building types in both single-tenant and multi-tenant buildings, including owner-occupied buildings	All retail

Mall

Class C malls see boost in absorption

Mall net absorption fell again in the second quarter, dipping -0.8 million square feet. This pullback in absorption is not a result of increased move-outs. On the whole, mall space vacated declined from the previous quarter, but so did total new space taken. Class A and B malls saw a 37.2% and 28.6% reduction in gross absorption square footage during the quarter. Conversely, Class C saw gross absorption triple in the second quarter. This could be a result of low availability for other mall classes, particularly for Class A malls which have an average availability rate of only 3.7%. To underscore this point, Class A malls have seen over 33% of available space leased over the last year, compared to less than half that rate for Class B or C malls.

Lifestyle centers remain the mall type with consistently positive net absorption, with totaled 0.4 million square feet during the quarter, compared to -0.8 million square feet and -0.3 million square feet from regional and super regional malls.

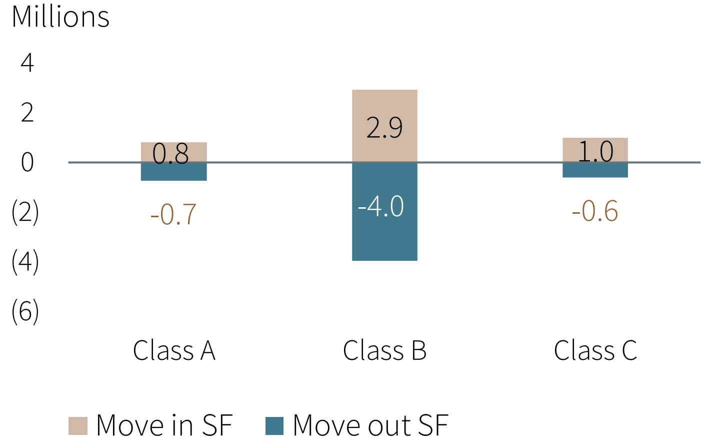
Notable new leases signed during the quarter came from Netflix, Apple Cinemas, Fast Retailing and Round1 Bowling & Arcades.

Mall fundamentals		
Q2 2024 net absorption	-0.8 million s.f.	↑
Vacancy	8.7%	↓
NNN rent	$33.67	↑
Under construction	2.8 million s.f.	↑
Deliveries	-0.3 million s.f.	↓

Source: CoStar
National index markets

Lifestyle centers continue to show strength

Move-in vs move-out SF by mall type and class – Q224



Source: CoStar, JLL
*national index markets

Malls see growth in retail traffic

In May, indoor mall foot traffic rose 8.6% from the previous year, following a pattern seen earlier in the year in February and March (Source: Placer.ai). This bump up in foot traffic is consistent with the growing popularity of malls with Gen Z. An earlier ICSC study found that 97% of Gen Zers surveyed say that they shop at bricks-and-mortar stores, with 60% heading to malls to hang out with friends, even if they do not have to shop (Source: NBC5: Rossen Reports: Gen Z is saving traditional malls. Yes, you read that right!).

These findings were underscored in our latest Back-to-school shopping report, where we found that malls have gained in popularity with parents shopping for back-to-school this year, jumping 610 basis points from 2023. Parents who plan to shop at a mall for back-to-school will also spend significantly more than the average, at $656. This makes sense since more high-income shoppers plan to visit malls. Nearly half of mall shoppers (45.8%) will visit four or more stores, and they plan to do the highest proportion of discretionary spending (at 68.3%).

Q2 2024 mall move-in highlights

	Lifestyle centers	Regional malls	Super regional malls
Big-box tenants	Whole Foods, LA Fitness, Nordstrom Rack, It'Sugar	Meijer, Burlington, Altitude Trampoline Park	Bloomingdale's, Primark, Target, RH Gallery
Smaller tenants	StretchLab, LoveSac, Five Guys, Birkenstock, Lululemon	Five Below, solidcore, Pandora, Popeyes	LoveSac, Escapology, Aspen Dental, Warby Parker, Wetzel's Pretzels, L'Occitane

Source: CoStar

Power centers

New power center deal sizes grow

As tenants increasingly hold on to space, power center net absorption rose 1.2 million square feet in the second quarter. While total new space taken remained relatively unchanged from the first quarter, space vacated fell 22.3%, pushing up net absorption.

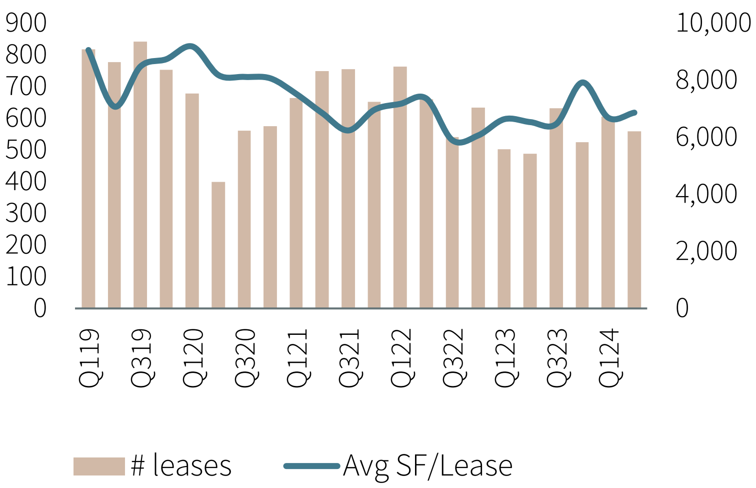
The average size of new leases signed during the quarter rose both from the previous quarter and year-over-year.

Tenants who leased the most power center space during the first quarter include entertainment tenants Flying Squirrel and Slick City, fitness tenants Crunch Fitness, and discounters like Dollar Tree and Five Below.

Power center fundamentals		
Q2 2024 net absorption	1.2 million s.f.	↓
Vacancy	4.3%	↑
NNN rent	$26.72	↑
Under construction	0.9 million s.f.	↑
Deliveries	0.6 million s.f.	↑

Source: CoStar
National index markets

Average size of new power center leases rose in Q2



Source: CoStar, JLL Research

Discounters remain biggest consumer of power center space

Discounters continue to shine in their expansion activities, taking over 1.5 million square feet of space. Apparel retailers, home furnishings stores and sporting goods retailers also took significant space during the quarter.

Q2 2024 power center move-in highlights	
Discounters	Five Below, Kohl's, Dollar Tree, Bob's Discount Store, Walmart
Apparel & accessories	Burlington, Nordstrom Rack, Boot Barn, Sierra, Rally House
Fitness/Wellness	EoS Fitness, Planet Fitness, Crunch, Club Pilates
F&B	Red Robin, Crumbl Cookies, Wingstop, Fogo de Chao, Kripsy Kreme
Home furnishings	Wayfair, HomeGoods, HomeSense, Mor Furniture
Sporting goods/outdoors	Sports Basement, Dick's Sporting Goods, REI

Source: CoStar

Shopping centers

Strip centers attract service tenants

Shopping center absorption totaled a moderate 0.5 million square feet. Much of the absorption came from community centers where gross absorption rose 13.3% from the previous quarter, with move-ins from off-price retailers like Nordstrom Rack, discounters like Dollar Tree and grocery stores like Wegmans and Trader Joe's.

Strip centers remain in the highest demand relative to available space, however, with 47.5% of available space leased over the last year, compared to 29.3% and 34.2% for community centers and neighborhood centers, respectively.

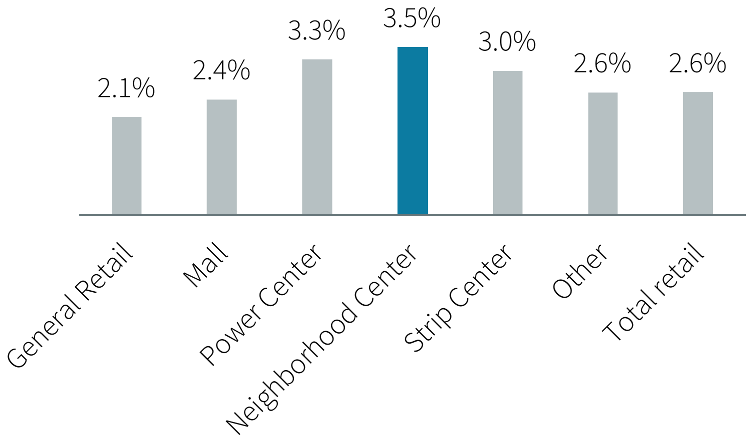
Increasingly, we are seeing the focus turn toward strip centers, particularly from an investment perspective. With many centers located close to daily needs destinations, they often benefit from increased traffic and steady income from service-based tenants like medical offices and F&B tenants.

Shopping center fundamentals		
Q2 2024 net absorption	0.5 million s.f.	↓
Vacancy	5.2%	↓
NNN rent	$23.60	↑
Under construction	9.9 million s.f.	↓
Deliveries	0.9 million s.f.	↓

Source: CoStar
National index markets

Neighborhood centers maintain highest rent growth

Q2 2023 Y/Y rent growth



Source: CoStar

Discounters and F&B top move-ins for open-air

Shopping center move-ins during the quarter were centered around discounters, with very high activity from Dollar Tree across all center types, totaling over 2.3 million square feet of space. Also very active were F&B tenants like Tijuana Flats and Starbucks, and grocery stores like Publix and Kroger.

Q2 2024 shopping center move-in highlights

	Neighborhood centers	Community centers	Strip centers
Big-box tenants	Kroger, EoS Fitness, Target, Publix, TJ Maxx, Marshalls, Dollar Tree	Target, Walmart, Ace Pickleball, Hobby Lobby, Ross Dress for Less, Dollar Tree	TJ Maxx, Dollar Tree, Marshalls, Harbor Freight, Lidl
Smaller tenants	ACE Hardware, Le Creuset, Club Pilates, Pet Supplies Plus	Yankee Candle, Crunch Fitness, Hand & Stone, Tijuana Flats	Tropical Smoothie, Metro by T-Mobile, Birkenstock, Aveda, ACE Hardware

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