

Report: Retail Remains Resilient

By Amy Wolff Sorter

Just three years ago, retail commercial real estate was in serious trouble. COVID-19-mandated shutdowns and stay-at-home orders all but vacated most brick-and-mortar shops. The exceptions, of course, were grocery stores and other essential services which did well.

Fast-forwarding three years, and retail is in the midst of a resilient period. According to U.S. retail real estate market reports for Q1 2023, lower supply and increasing demand continues to support retail properties. Due to muted development activity, "supply-demand fundamentals continue to improve," according to Lee & Associates' Q1 2023 North America Market Report.

On the other side of the coin, the JLL United States Retail Outlook, Q1 2023 indicated that retail fundamentals are starting to slow, mainly due to stubborn, ongoing inflation and banking issues. "Consumers have responded to persistent inflation by shifting money away from discretionary goods purchase in favor of groceries and other key necessities," the JLL analysts pointed out. This has benefited the discounted and online retailers.

Another trend noted by analysts was the decrease in absorption from previous quarters. "Total retail absorption was more than twice the amount of retail space delivered in Q1 2023," said CBRE's U.S. Q1 2023 Retail Report. "(This was) the fifth consecutive quarter in which demand has surpassed new supply."

The Cushman & Wakefield U.S. Retail MarketBeat for Q1 2023 also noted lowered absorption rates, though pointed out that the market reported eight consecutive quarters of positive net absorption. Meanwhile, "limited new supply, combined with robust demand, has caused vacancy rates to decline," noted the Cushman & Wakefield analysts.

When it came to the outlook, CBRE analysts are forecasting continued muted development and deliveries. This, in turn, could impact absorption and vacancies.

Meanwhile, the Cushman & Wakefield report indicated that, while retailers are anticipating more challenging times ahead, any downturn or recession shouldn't be as dire as that generated by the Great Financial Crisis. Household debt burdens are 20% below where they were in 2008, the report said. Retailers are also more financially healthy.

Otherwise, Cushman & Wakefield's expectations are that retail vacancy will either level out or "move modestly higher by the end of this year as tenants grow more cautious." This will represent a pause, rather than a correction, presenting an "opportunity for new brands and retail uses to expand more aggressively on the other side in 2024," the Cushman & Wakefield analysts added.