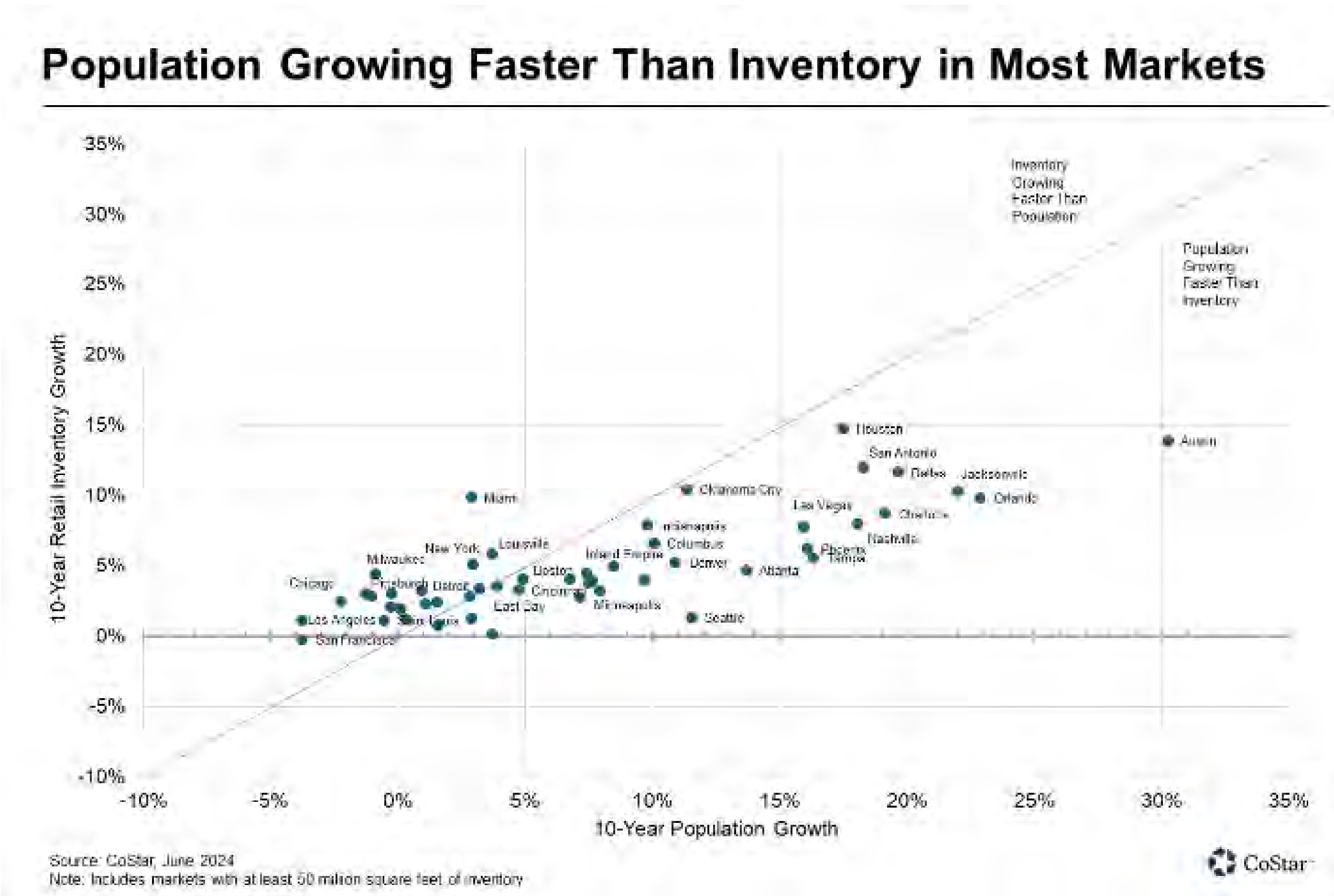
Retail Space Per Capita Keeps Falling

More Than 60% of Major Markets See Decline Over Past Decade



By Brandon Svec

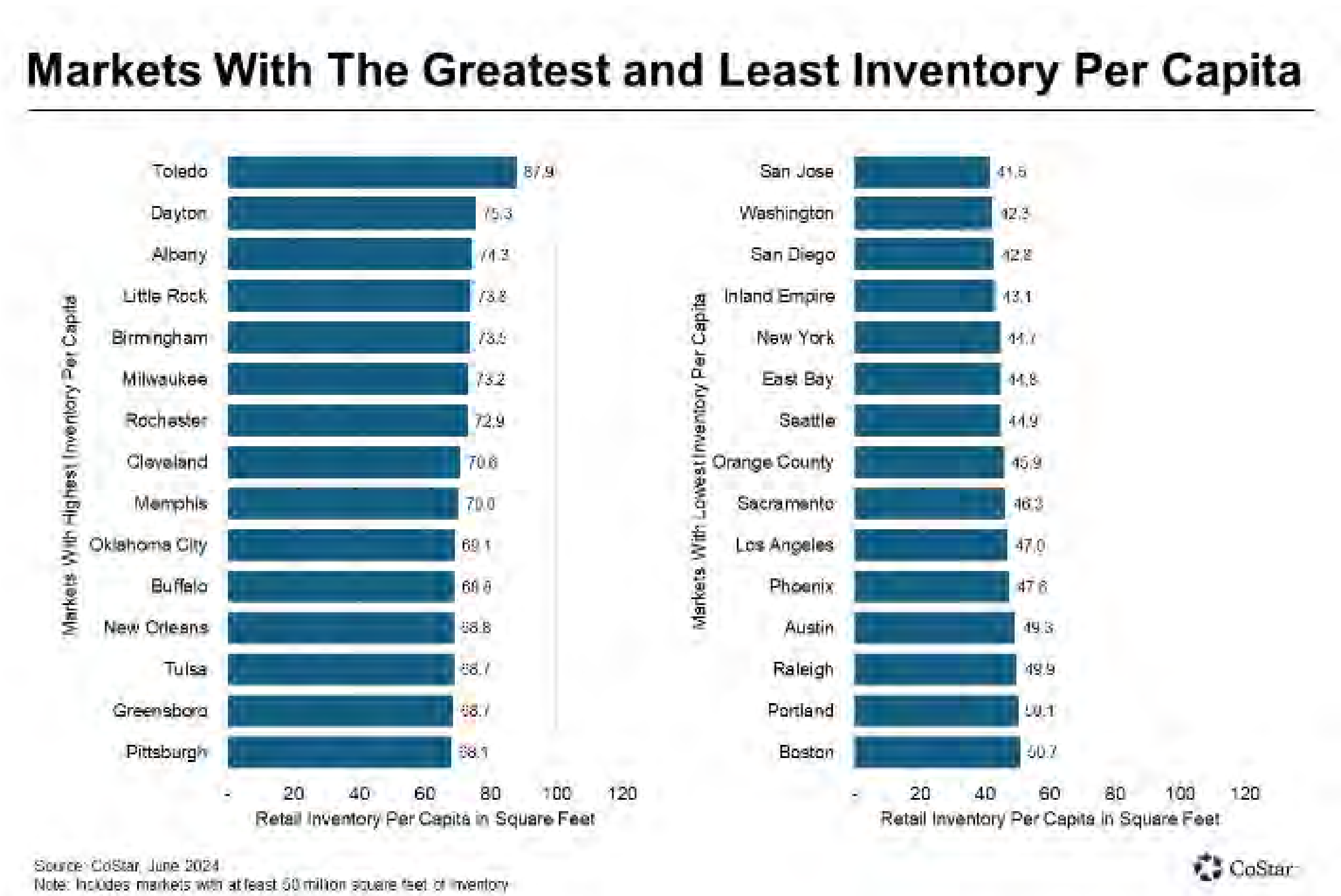
The U.S. retail market is navigating a complex landscape influenced by factors affecting both demand for retail space and new construction.

On the demand side, competition from online retailers has reduced the need for physical spaces for apparel, footwear and certain home and hobby goods. This shift has been balanced by increased demand from tenants in such retail sectors as health, beauty, wellness and personal services. Nearly half of all retail space leased over the past year was occupied by tenants outside the traditional retail sector. This trend is driven by a post-pandemic consumer spending boom, boosting overall demand for retail space and fostering a more efficient operating environment for retailers.

On the supply side, the market has been shaped by the aftermath of the Great Financial Crisis and a significant wave of store closings in the mid-2010s. These events led to fears of oversupply and a substantial reduction in new store construction. Consequently, most retail development has focused on build-to-suits and smaller ground floor spaces within larger mixed-use developments. The closing of hundreds of department stores and malls has resulted in over 170 million square feet of retail space being demolished since 2017.

The net effect of these dynamics is a retail inventory is expanding at a much slower rate than the U.S. population. Over the past decade, the average amount of retail space per capita in the nation's 75 largest retail markets decreased 1.9%, falling to 58.9 square feet per person. More than 60% of major markets have experienced population growth outpacing retail inventory growth. This trend is particularly pronounced in Sun Belt markets such as Austin and Dallas in Texas, Orlando and Jacksonville in Florida, Charlotte, North Carolina, and Nashville, Tennessee, where population growth has outstripped inventory growth by 5% or more. These markets benefit from a demographic boom and an influx of new residents seeking better economic opportunities and quality of life.

Conversely, several high-cost coastal markets and manufacturing-driven Midwestern markets have witnessed population stagnation or decline. In these areas, despite minimal new development, retail inventory growth has still surpassed population growth. This indicates a misalignment between the supply of retail space and actual demand driven by population trends.



Several high-cost coastal markets such as San Francisco, New York and Los Angeles, have relatively limited retail space per capita despite slow expansion rates. In these regions, the high cost of land and development, coupled with stringent zoning laws and a premium on alternative land uses, means retail development is not always the highest and best use. This results in a slower rate of retail space expansion despite high population density and potential consumer base.

Manufacturing-driven Midwestern markets, which have seen population stagnation or decline, exhibit another unique trend. Here, despite minimal new development, retail space per capita remains relatively high because existing inventory exceeds the demands of a shrinking or static population. This dynamic creates a surplus of retail space, often leading to higher vacancy rates and underutilized properties. The legacy of expansive retail development during boom times means these areas now face challenges in repurposing or re-leasing surplus retail space amid stagnant population growth.

While markets with the highest or lowest retail space per capita often reflect broader trends of expansion or contraction, local economic conditions, land costs and population dynamics create exceptions. As consumer preferences evolve and demographic trends play out, individual markets must adapt to their specific conditions to maintain a balance between supply and demand, ensuring sustainable growth in the years to come.