

Demand for retail space keeps rising despite limited availability

Sector shrugs off concerns in second quarter as retailers remain in expansion mode

By Brandon Svec

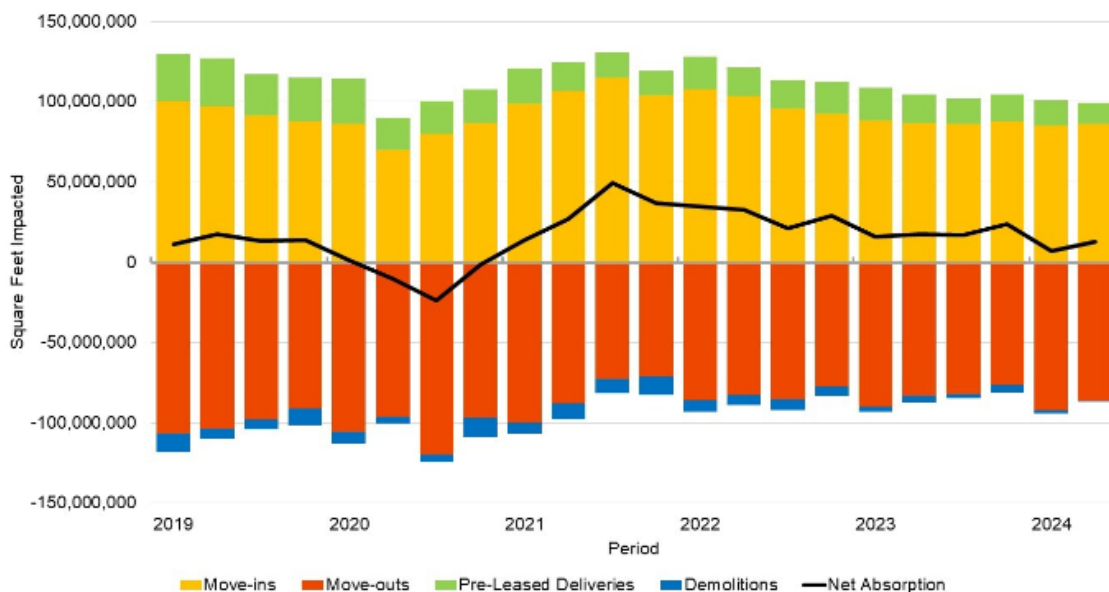
While concerns over an increase in store closing announcements dominated headlines, retail tenants remained firmly in expansion mode during the second quarter.

Demand for retail space expanded by nearly 13 million square feet in the quarter, a more than 80% increase from the first quarter in which retailers filled just 7 million square feet of store space nationally on a net basis, and marked the 14th consecutive quarter in which retail tenants filled more space than was vacated. Meanwhile, the availability rate for retail space remained at a historic low of 4.5% at the end of the second quarter.

The net change in retail space demand is driven by a number of factors. Most critical is the balance of move-ins versus move-outs, while the delivery of pre-leased space or demolition of occupied space generally has less of an impact on the overall demand equation.

Retail move-ins in the second quarter totaled 86.3 million square feet, up slightly on a quarter-over-quarter basis. While consistent with the totals recorded in each of the past five quarters, the pace of retail move-ins has slowed from levels seen in 2021 and early 2022 when ultra-low interest rates and a significant increase in consumption ushered in a demand spike. However, tenants cannot fill spaces that are not available, and as vacancy contracted, so too has the pace of move-ins.

Reduced Pace of Closures Supports Positive Absorption



Source: CoStar, August 2024



Fortunately for retail property owners, the amount of space vacated by retail tenants nationally also declined in the second quarter. After averaging more than 100 million square feet of retail tenant move-outs per quarter from 2016 through 2020, move-outs have averaged just 83 million square feet per quarter since the start of 2021. Tenants moved out of 86 million square feet of space during the second quarter, leaving the existing retail space market in equilibrium.

With the amount of space involved in move-ins and move-outs during the quarter largely offsetting each other, the 13 million-square-foot increase in demand was primarily driven by new pre-leased retail space reaching completion.

A total of 13.6 million square feet of positive demand was created during the quarter due to new stores and shopping centers coming online, which was slightly offset by the demolition and removal from inventory of half a million square feet of previously occupied retail space.

Looking ahead, the U.S. retail market should continue to see positive demand formation throughout the remainder of the year. While the pace of move-outs is expected to increase slightly due to recently announced closures, the breadth and depth of tenants looking to expand are expected to offset the increase in newly vacated space.