United States
Retail Market Dynamics

Muted availability presents challenges for expanding retailers

JLL SEE A BRIGHTER WAY

Research

United States

Q1 2024

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Table of contents

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To come back to this page, use located in the top right corner of each page.

Executive summary

- Net deliveries in the first quarter totaled 9.5 million for the 139 national index markets in the U.S. This figure is roughly on par with Q4 deliveries but is 27.4% lower than Q1 2019 numbers. Most of the new space being released to the market has also been pre-leased, with an average of only 25% of delivered inventory actually available for lease.
- The percent of available space that has been leased remains elevated, at 35.1% over the last 12 months, compared to 31.9% in Q1 2019. This shows that the demand is there, but supply is restraining activity.
- Sun Belt market rent growth continues to trend higher than metros in the Northeast and West, thanks to solid population gains and buying-power growth. Metros carrying significant proportions of older suburban properties and those with stagnant population totals underperform the U.S. average.
- The size of newly executed leases fell 11.1% from the previous quarter to an average of 3,027 square feet. This is a result of a predominance of retailers taking small spaces (under 2,500 square feet). More than two-thirds (68.5%) of deals inked in the first quarter were for such small spaces given that quick-service and fast-casual restaurants generally fall within this size category.
- Announced restaurant openings in 2024 already tally almost 2,000 locations, mostly from QSRs like McDonald's, Chipotle, WingStop and coffee chain Dutch Bros.

01

Economic and retail real estate fundamentals

U.S. retail economy trends

Inflation

3.5% ↑

Consumer price index growth rose to 3.5% above year-ago levels in March – a 0.4% increase from the previous month. With inflation inching upward, consumers may feel more pressure to pull back spending on non-essentials in coming months.

Consumer sentiment

77.9 pts ↓

Consumer sentiment (University of Michigan index) inched down 1.9% month-over-month and rose 22.3% from year-ago levels. The index is at its highest level since July 2021. While sentiment has been relatively stable for several months, there is some frustration that inflation slowdown has stalled, which may impact buying decisions.

Retail sales

0.7% ↑

Retail sales rose in March, increasing 0.7% over February and 4.0% year-over-year, slightly besting the inflation rate. The strongest gains were seen for e-commerce retailers, home improvement and gas stations – the latter likely because of rising prices.

Retail fundamental statistics Q1 2024

Fundamentals	General retail	Malls	Power centers	Neighborhood and community	Strip centers	Total retail
Inventory	6,546,749,746	907,118,970	797,330,148	2,979,843,655	708,578,231	12,047,169,791
Vacancy	2.6%	8.6%	4.3%	5.9%	4.6%	4.1%
Net absorption	3,931,176	(406,165)	(326,474)	125,646	270,487	3,589,304
Net deliveries	7,825,421	(853,187)	496,510	1,395,628	519,442	9,496,911
Under construction	36,157,036	2,442,147	1,762,793	6,641,406	2,927,409	51,255,660
Market rent	$24.04	$33.82	$26.60	$23.99	$22.85	$24.92

Source: CoStar - National index markets

02

Supply can't keep up with demand

U.S. retail RE fundamentals snapshot

1

Demand

Leasing activity in Q1 2024 pulled back somewhat from the previous quarter, largely because of a frustrating lack of available space in desirable locations. The lion's share of demand is still coming from F&B tenants, particularly QSRs, discounters and experiential tenants.

2

Rents

Asking rents continue to rise, although gains are slowing gradually. The variation between rent performance in Sun Belt markets compared to metros in the Northeast and West remains high.

3

Supply

Retail availability is hovering near record lows, putting a ceiling on leasing activity. There are just over 50 million square feet of retail space under construction, with over 70% pre-leased. Given that construction starts remain low, limited supply will remain a central issue for retail in coming quarters.

4

Capital markets

Despite a 15% decline in transaction volume from the prior year, the retail sector performed the best amongst the primary property types and experienced higher volume compared to Q1 2019.

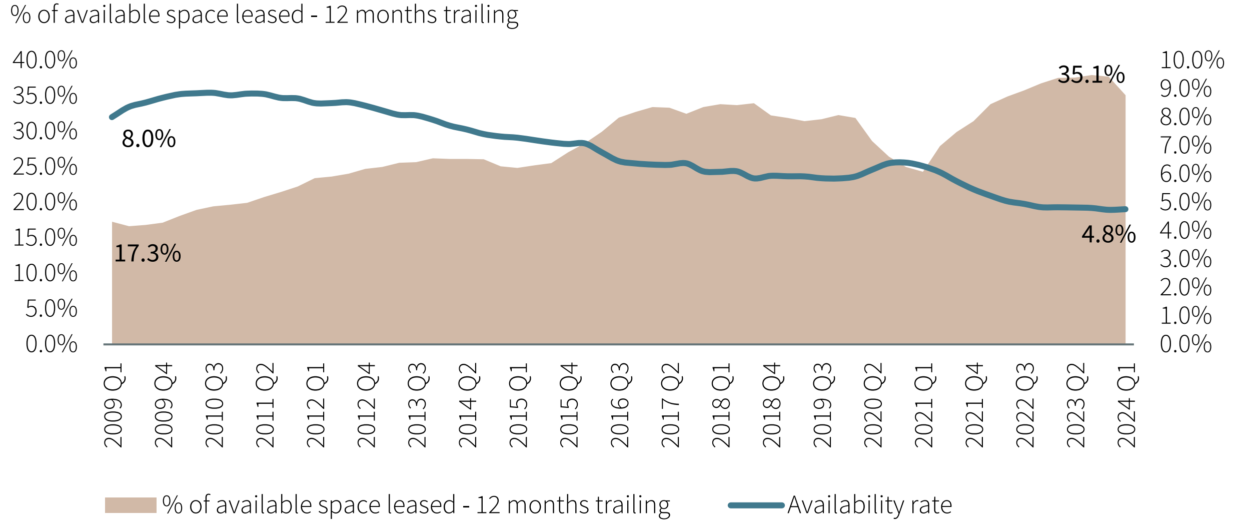
Leasing rate remains high

Retail space availability has been steadily creeping downward for years. Pullback on retail construction started after the Great Recession in 2008, and developers continue to be deliberate in their construction plans. Net deliveries in the first quarter totaled 9.5 million for the 139 national index markets in the U.S. This figure is roughly on par with Q4 deliveries but is 27.4% lower than Q1 2019 numbers. Most of the new space being released to the market has also been pre-leased, with an average of only 25% of delivered inventory actually available for lease.

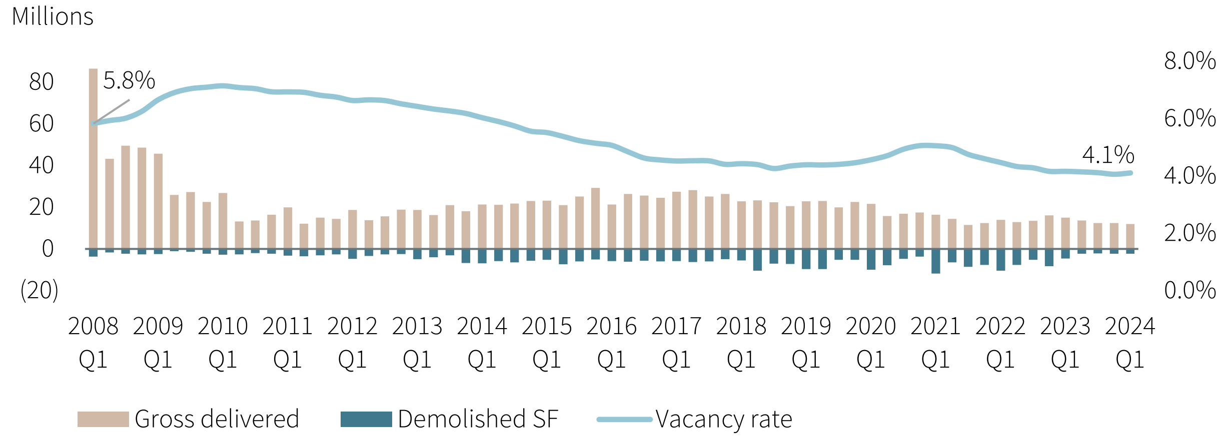
Along with suppressed construction, demolished retail space has also helped push down availability. More than 12 million square feet of retail space has been demolished over the last year, and 155 million square feet have been removed over the past five years.

This increasing scarcity of supply has made it harder for expanding retailers to land desirable space. This mismatch between demand and supply helped push leasing activity down 14.5% from the previous quarter. However, the percent of available space that has been leased remains elevated, at 35.1% over the last 12 months, compared to 31.9% in Q1 2019. This shows that the demand is there, but supply is restraining activity.

Percent of available space leased remains near high



Limited construction and steady demolishments weigh on supply



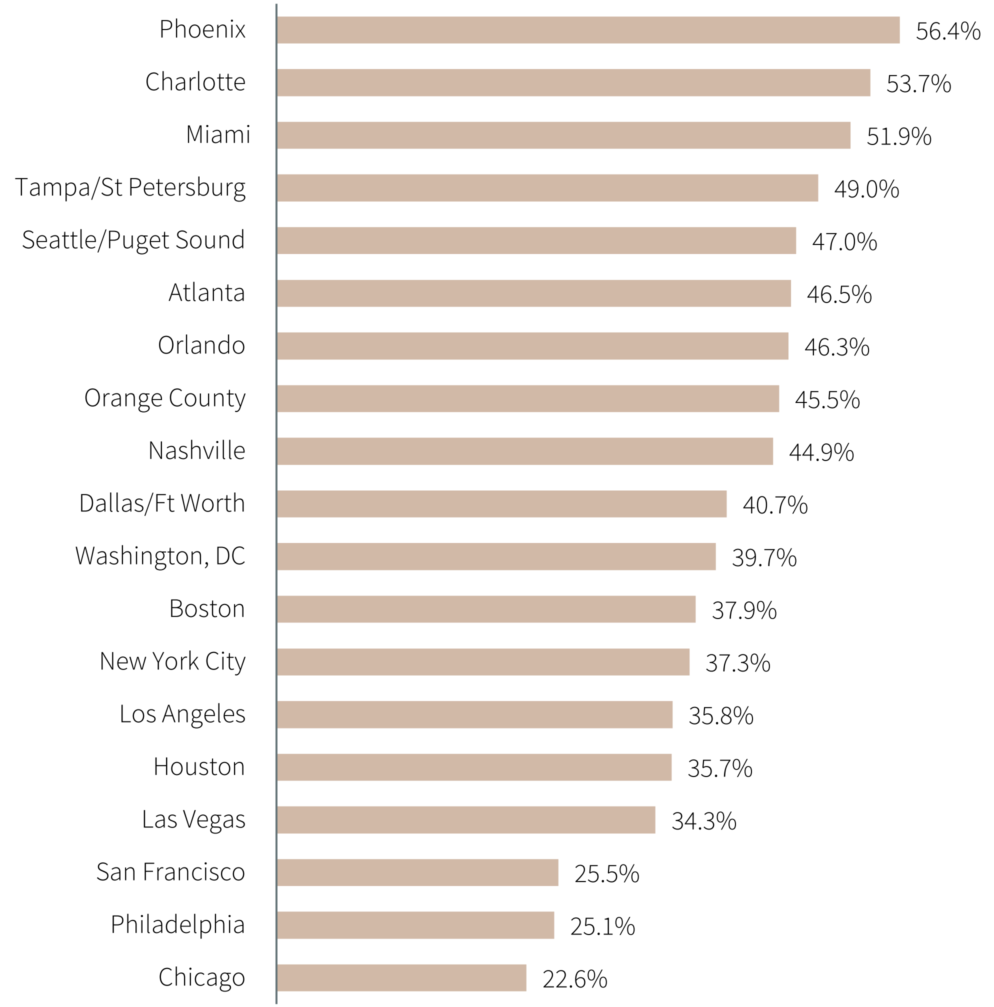
Source: CoStar, JLL Research

Sun Belt markets see higher leasing rates

The leasing rate varies widely from market to market, with Sun Belt markets having significantly higher leasing rates of available space. Eight of the top 10 markets in the chart to the right are Sun Belt markets, with Phoenix leading the metros with 56.4% of its available space leased over the last year. Conversely, markets like San Francisco, Philadelphia and Chicago saw considerably lower leasing rates of between 22% and 26% of available space.

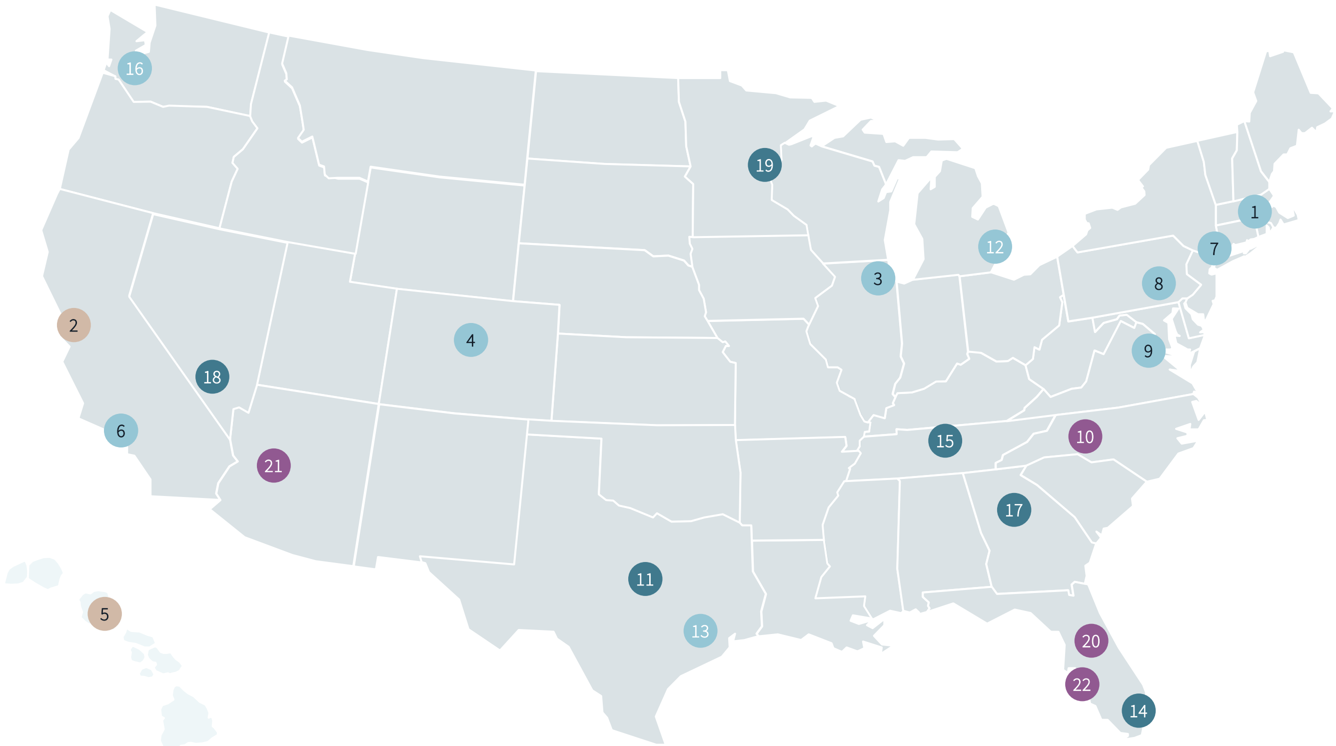
Sun Belt market rent growth also continues to trend higher than metros in the Northeast and West, thanks to solid population gains and buying-power growth. Metros carrying significant proportions of older suburban properties and those with stagnant population totals underperform the U.S. average.

Percent of available space leased by market – trailing 12 months



Source: CoStar, JLL Research

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



#	Metro	Movement	Y/Y % rent change	#	Metro	Movement	Y/Y % rent change
1	Boston	↑	0.8%	12	Detroit	↓	3.0%
2	San Francisco	↑	-0.2%	13	Houston	↓	2.8%
3	Chicago	→	1.2%	14	Miami	↑	4.7%
4	Denver	↓	0.9%	15	Nashville	↑	4.1%
5	Honolulu	↓	-0.7%	16	Seattle	↓	2.5%
6	Los Angeles	↓	0.4%	17	Atlanta	↓	5.7%
7	New York	↑	2.0%	18	Las Vegas	↓	5.1%
8	Philadelphia	↓	0.1%	19	Minneapolis	↓	5.6%
9	Washington, D.C.	↓	1.6%	20	Orlando	↓	6.2%
10	Charlotte	↑	7.6%	21	Phoenix	↓	8.4%
11	Dallas	↓	5.0%	22	Tampa	↓	7.2%

Y/Y % rent change

< 0.0%　　0.0% - 3.0%

3.1% - 6.0%　　> 6.0%

Movement from previous quarter

↑ ↓ →

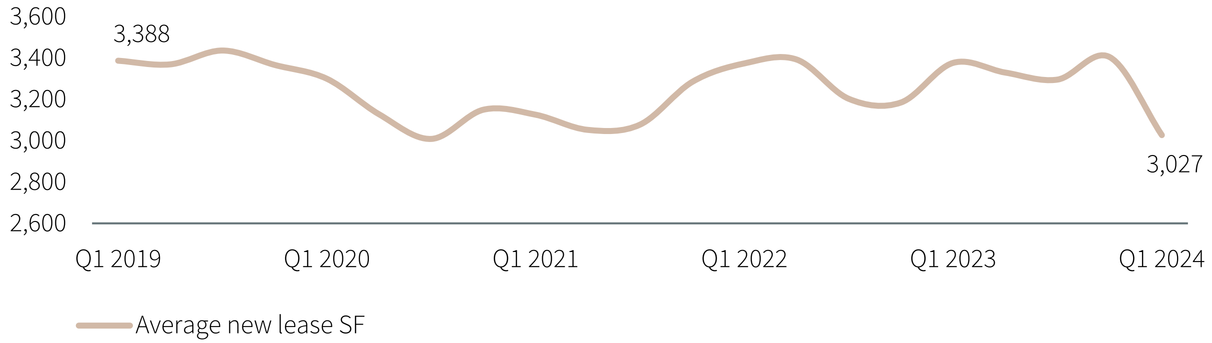
Source: CoStar

More than 2/3 of leases are for small spaces

The size of newly executed leases fell 11.1% from the previous quarter to an average of 3,027 square feet. This is a result of a predominance of retailers taking small spaces (under 2,500 square feet). More than two-thirds (68.5%) of deals inked in the first quarter were for such small spaces given that quick-service and fast casual restaurants generally fall within this size category. Spaces under 2,500 square feet also comprised the greatest square feet signed during the quarter.

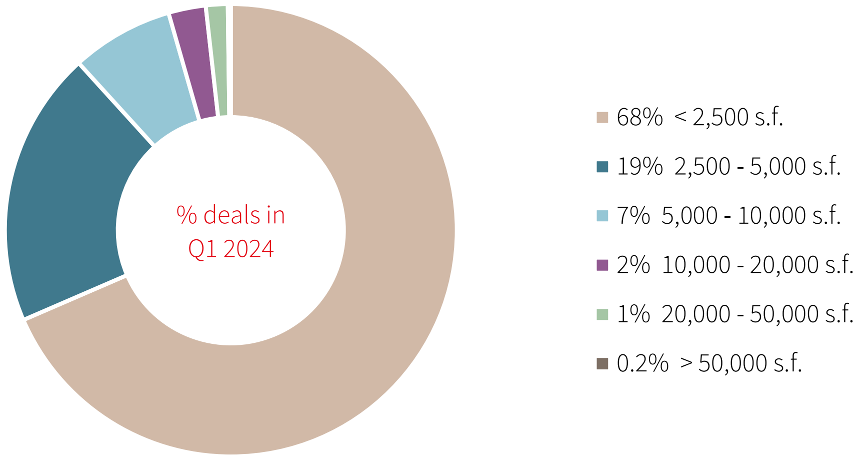
Conversely, big box spaces of over 50,000 comprised less than 1% of all deals and only 5.6% of space signed for. Major deals in this category include Dick's Sporting Goods, BJ's Wholesale Club, Bosse Pickleball and Chicken n Pickle.

New signed lease size declines



Source: CoStar, JLL Research

Small spaces make up majority of inked deals



Source: CoStar, JLL Research

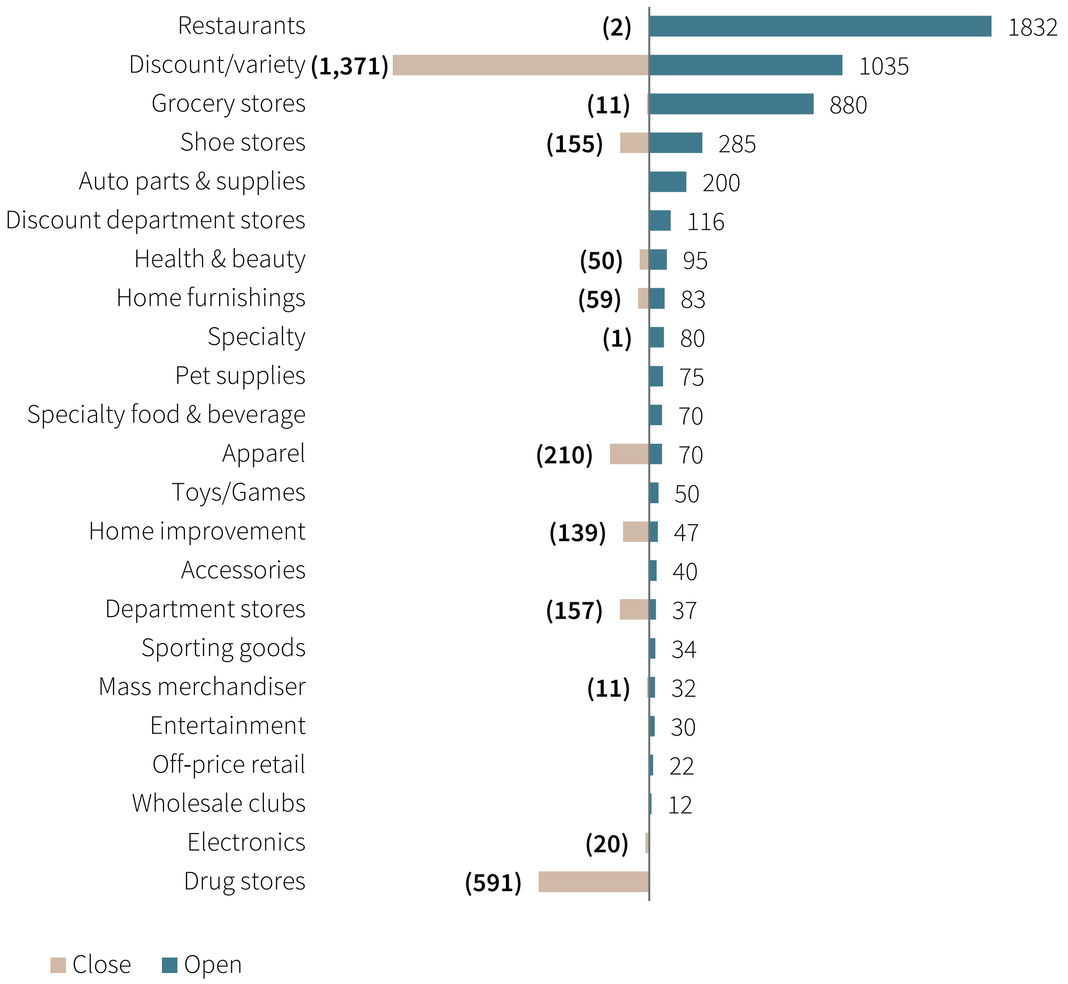
Announced openings nearly double number of closings

Since the pandemic, we've seen a marked shift to dining out. While consumers spent more on groceries during lockdown, they also got acclimatized to drive-thru lanes and deliveries from QSRs and other restaurants. As the price of groceries spiked relatively higher than other food categories, consumers have shifted more of their dollars to restaurants. Dining spending rose 11.7% in 2023 compared to only a 2.6% gain for groceries. Restaurants have responded by aggressively expanding. In 2023, F&B openings accounted for nearly 20% of all leasing activity.

To underscore this point, announced restaurant openings in 2024 already tally almost 2,000 locations, mostly from QSRs like McDonald's, Chipotle, WingStop and coffee chain Dutch Bros. Notwithstanding Dollar Tree's recent closure announcements, dollar stores still have high announced openings so far this year with Dollar General's and Five Below's expansion plans. Other opening highlights include Aldi's plans to open 800 stores by 2028.

Macy's has announced 150 store closures over the next three years, which will put additional pressure on mall performance. Recent bankruptcy announcements from The Body Shop and Express will also weigh on mall occupancy.

Select announced openings and closings in 2024



Source: PNC, JLL Research

03

Experience will remain central trend for retail

Retailers cook up new concepts

1. **Retailers open shop-in-shops.** Small shops inside larger stores act as a way to broaden a retailer's merchandise offering and appeal by offering something fresh and different. It can also be a way to garner additional income by partnering with brands and small retailers. E.g., Kohl's recently announced a new partnership with Babies R Us in 200 of its locations this year. Kohl's similar partnership with Sephora is expected to account for 10% of its 2024 revenue. Madewell's flagship store on Fifth Avenue and Filson's store on Broadway have both partnered with local bookstores to open small in-store curations. Madewell partnered with McNally Jackson, while Filson partnered with The Strand.

2. **Restaurants experiment with new concepts.** Chick-fil-A is opening two digital-focused test concepts this year. One is a mobile pickup-only restaurant on the Upper East Side in New York City, where there is no seating or dining area. The restaurant uses geofencing to determine when customers are on their way to expedite the process. The second is a drive-thru concept in Atlanta where customers can either order through an employee or go through a mobile pickup lane for orders placed ahead of time.

   McDonald's is expanding its CosMc's stores – a small-format beverage-forward concept – in Dallas, Texas. The restaurant expects to open nine more of these stores in 2024.

3. **Experience remains central for retail stores and centers.**
   - Netflix is set to debut a retail/entertainment concept called Netflix House in King of Prussia Mall, PA in 2025. The new entertainment concept will open in a former Lord & Taylor space and feature a 250-seat theatre, merchandise, food and themed live events.
   - Casper will unveil a new immersive store concept featuring dedicated "snooze bars" where customers can book nap appointments, a bunkhouse getaway where kids play while adults shop and an interactive "pillow lab".
   - Bloomingdale's is opening a pop-up space called Carousel: Camp Bloomingdale's in over a dozen of its stores across the country. The pop-up space will feature swimwear, accessories, beauty, camp gear and F&B. The NY flagship location will offer special features in April including a friendship bracelet bar, Coleman T-Shirt giveaway and Crocs customization station.

04

Retail sector leads in investment volume

Urban retail leads transaction volume

Despite strong fundamental performance, U.S. retail investment activity* remained subdued, closing at $14 billion in Q1 2024. Widespread capital markets dislocation, namely high interest rates, resulted in a low level of portfolio transactions and declines in average deal size as investors struggled to finance high-dollar trades. While this fueled the 15% decline in transaction volume from the prior year, the retail sector performed the best amongst the primary property types and experienced higher volume compared to Q1 2019.

In the multi-tenant retail space as of Q1 2024, urban retail had the highest transaction volume, at $2.3 billion - driven by the 717 Fifth Avenue transaction for $963M. Luxury retail's investment appeal, particularly from international investors should benefit urban through the year. Retail remains a private capital dominant business, which accounts for more than 70% of transaction volume.

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

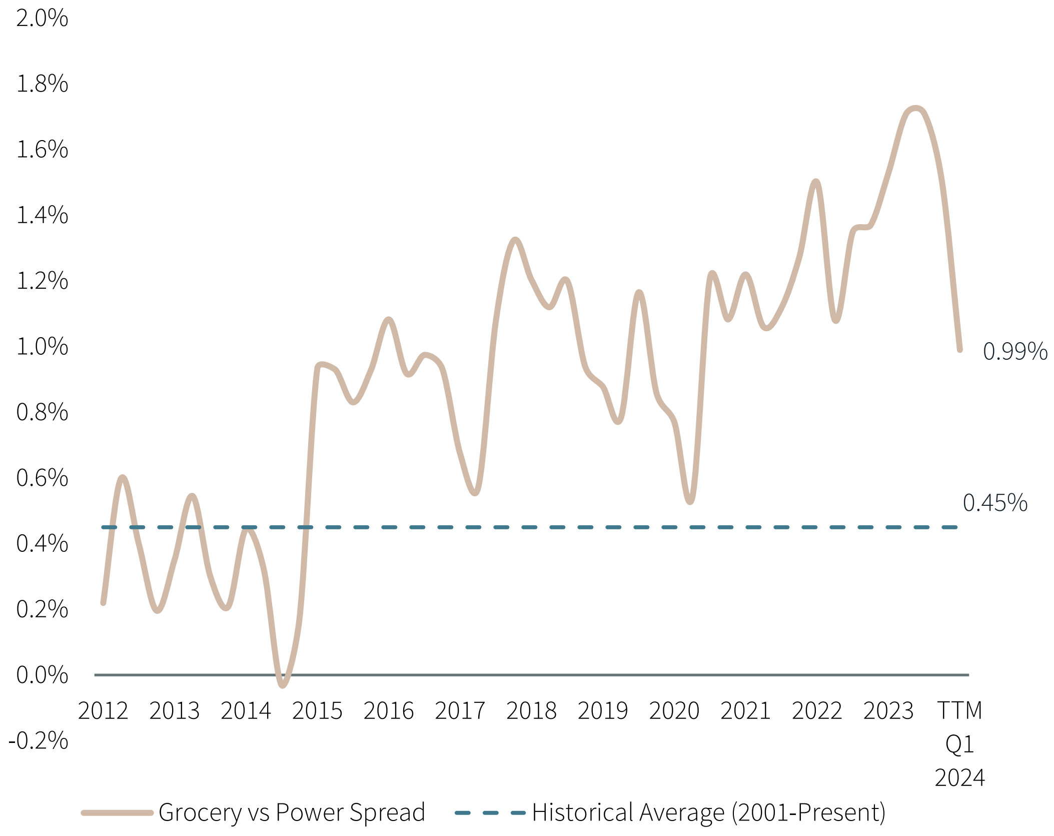
Premium for grocery-anchored retail surpasses historical averages

Despite pricing volatility for U.S. retail assets given the Federal Reserve's "higher for longer" interest rate policy, smaller format, unanchored strip and grocery-anchored retail centers continue to price the most aggressively. In the trailing twelve months of Q1 2024, grocery-anchored and unanchored strip centers demonstrated going-in yields at 7.2% and 6.8%, respectively. However, there is still a disparity in pricing and perceived risk for larger non-grocery-anchored retail properties. Power centers, in particular, had an average capitalization rate that was 99 basis points higher compared to grocery-anchored assets during the same trailing twelve-month period.

However, the fundamentals of retail leasing are currently the strongest they have been in recent history, and this has been a driving force in revitalizing interest in retail among institutional investors. This positive trend is reflected in our mid-year client survey, where it was found that the capital markets were perceived as the biggest threat to the sector, receiving 69% of the votes. Rising operating costs accounted for 21% of the votes, while retailer bankruptcies and eCommerce penetration were seen as less significant threats, at 5% and 3% respectively.

With very limited new development and construction that no longer makes financial sense, the conditions are favorable for strong rent growth in the retail sector. Although institutional investors were relatively inactive in Q1 2024, with 70% of transactions going to private investors, an improving debt market may stimulate an increase in capital flow into the retail space in the upcoming year.

U.S. grocery vs. power center spread, 2012 – TTM Q1 2024



Source: JLL Research
Note: Data pertains to all grocery and power center retail transactions, $2.5M+.

05

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

Lifestyle centers remain in demand

Mall net absorption dipped to -0.8 million square feet in the first quarter after a strong showing at the end of 2023. This pullback in absorption is a result of increased move-outs, as several mall tenants opt to move into open-air centers to capitalize on higher foot traffic. Move outs were also boosted by closures from mall tenants like GameStop, Outdoor Voices, Lucky Brand, Banana Republic and Aldo.

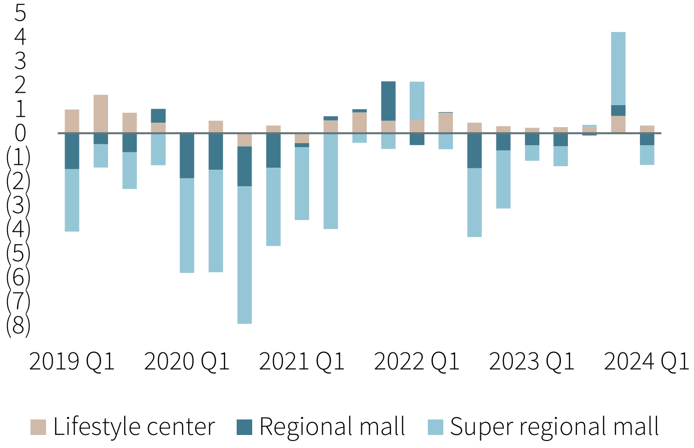
Despite increased move-outs and moderated gross absorption for malls in general, lifestyle centers continue to show solid demand and positive net absorption of 0.3 million square feet during the quarter. The percent of available lifestyle center space leased over the last year, at 34.6%, is considerably higher than for other mall types. There were 435 new mall leases signed in the first quarter, 43.4% of which were for lifestyle centers. Tenants who signed new leases during the first quarter include entertainment tenant Game Time, cowork space Industrious, and IKEA. Conversely, super regional malls had the greatest proportion of space leased (52.5%) during the quarter, thanks to newly inked deals from tenants like Dick's Sporting Goods, Bosse Pickleball and Southern Lion home furnishings store.

Mall fundamentals		
Q1 2024 net absorption	-0.8 million s.f.	↑
Vacancy	8.7%	↓
NNN rent	$33.86	↑
Under construction	2.2 million s.f.	↑
Deliveries	-0.7 million s.f.	↓

Source: CoStar
National index markets

Lifestyle centers continue to show strength

Net absorption in millions s.f.



Source: CoStar, JLL
*national index markets

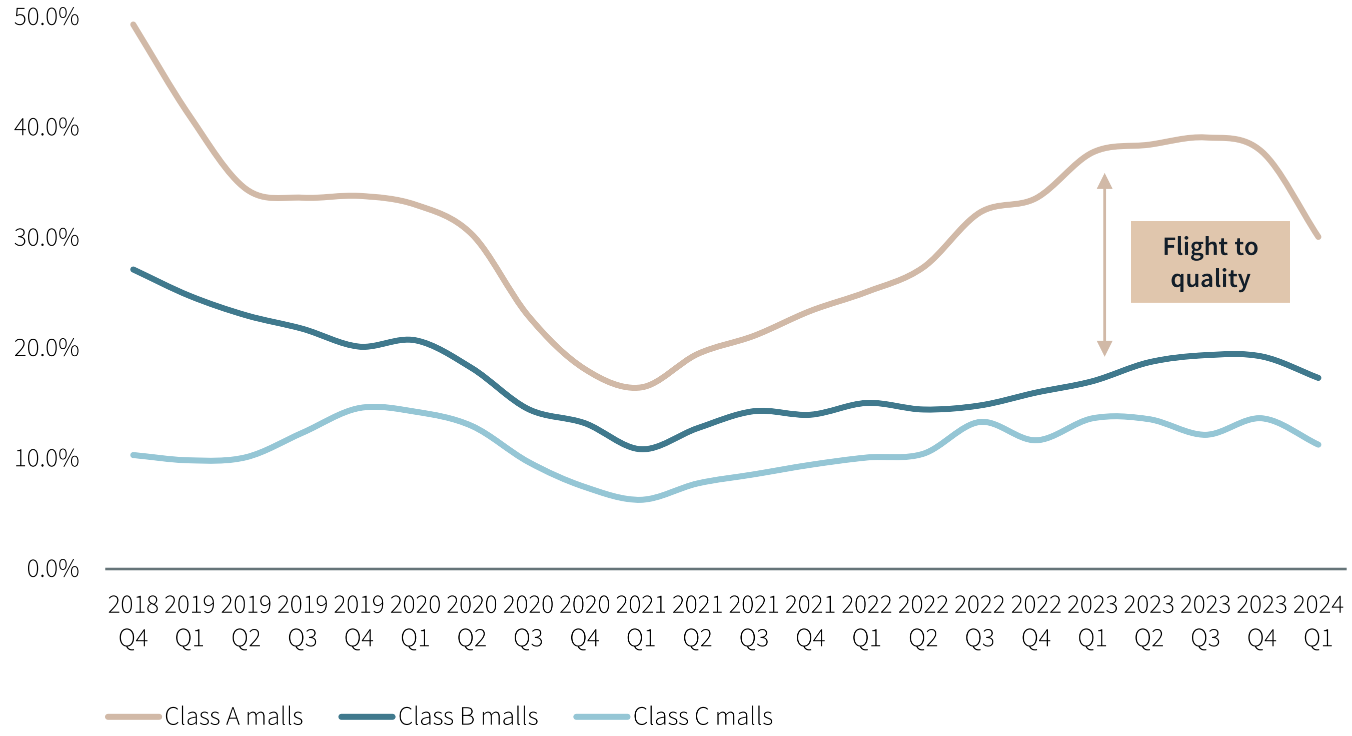
Retailers focus on Class A malls

Starting in 2021, Class A malls saw a resurgence in leasing activity growth, as expanding retailers focused on high-quality mall space. The proportion of available space leased totaled 30.1% for the 12 months ending in March of 2024. This demand for Class A space, pulled availability down to 3.6% - the lowest level since 2018.

Class B and Class C malls have not seen the same surge in demand, and have much higher availability of 6.8% and 10.2%, respectively.

Class A malls see surge in leasing activity emerging from COVID

Percent of available mall space leased – trailing 12 months



Source: CoStar, JLL; all malls in US

Macy's closures present challenges and opportunities to malls

Macy's recently announced the closures of 150 mall stores over the next three years, with 50 closures taking place in 2024. As Macy's exits, the question emerges of what will happen to these vacant anchor spaces. Examples of retailers who have backfilled empty Macy's spaces over the past few years include home furnishings stores like Arhaus, Crate & Barrel and RH; experiential tenants like Bowlero, Life Time and Surge Adventure Park; and, other retailers including Uniqlo, Hobby Lobby and Home Goods, In some cases, multiple tenants occupy the vacant space. Owners may also choose, where appropriate, to redevelop the spaces into other uses. We've seen this in several cases with defunct Sears locations:

- Mall at Stonecrest – Atlanta, GA: Revitalized with addition of aquarium, food hall, coworking space, and health & wellness center.
- Brea Mall – Orange County, CA: Reimagined into a mixed-use property including apartment complex, luxury fitness center, new retail/dining, and nearly 1 acre of green space.
- Foothills Mall – Maryville, TN: Transforming into Uptown – a mixed-use project featuring coworking space, restaurants, retail, hotels and residential space.

Q1 2024 mall move-in highlights

	Lifestyle centers	**Regional malls**	**Super regional malls**
Big-box tenants	Best Buy, Home Goods, Nordstrom Rack, Total Wine & More, Dave & Buster's	JC Penney, Amazon Fresh, Lidl, Venture X	Dillard's, Dick's Sporting Goods, Uniqlo, Birch Lane, Sky Zone, Dave & Buster's
Smaller tenants	Warby Parker, Lily Pulitzer, Benihana, Sola Salon, Sur La Table, Orangetheory Fitness	LoveSac, Sephora, Hibbett Sports, Sunglass Hut	Loveisa, StretchLab, Williams-Sonoma, CHANEL Boutique, Free People

Source: CoStar

Power centers

Power centers maintain stability

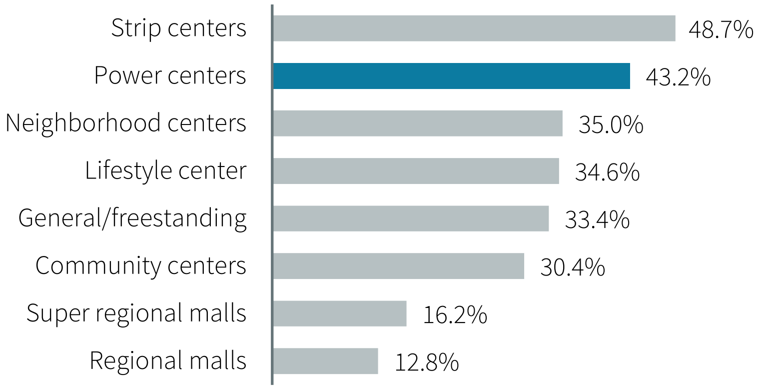
Despite an increase in overall square footage taken during the first quarter, power center net absorption dipped slightly to -0.3 million square feet – largely a result of a bump up in vacated space in Class B and C centers.

Notwithstanding tepid net absorption, the percent of available space leased over the last year was one of the highest among retail property types, at 43.2%. Tenants who leased the most power center space during the first quarter include entertainment tenants Malibu Jack's and Momentum Climbing, fitness tenants Crunch Fitness and The Picklr, and discounters like Five Below and Burlington.

Power center fundamentals		
Q1 2024 net absorption	-0.3 million s.f.	↓
Vacancy	4.3%	↑
NNN rent	$26.60	↑
Under construction	1.7 million s.f.	↑
Deliveries	0.5 million s.f.	↑

Source: CoStar
National index markets

Percent of available space leased by market – trailing 12 months



Source: CoStar, JLL Research

Grocery and discounters open up in power centers

Discounters continue to shine in their expansion activities, while grocers like Costco, Kroger and Publix also open locations in power centers. Other move-ins include tenants like Capital Grille, Ashley Homestore and Planet Fitness.

Q1 2024 power center move-in highlights	
Discounters	Burlington, Walmart, Five Below, TJ Maxx, pOpshelf, Daiso
Apparel & accessories	Nordstrom Rack, Skechers, Rally House, Claire's, Snipes
Fitness/Wellness	Planet Fitness, Esports Fitness, LA Fitness, YogaSix, Club Pilates
F&B	Red Robin, Crumbl Cookies, Wingstop, Fogo de Chao, Kripsy Kreme
Grocery	Whole Foods, Lidl, Grocery Outlet, Bravo Supermarkets
Cosmetic/Beauty	ULTA, Sephora, Bath & Body Works, Milan Laser Hair Removal, Great Clips

Source: CoStar

Shopping centers

Strip centers show strong demand

Shopping center absorption totaled a moderate 0.4 million square feet during the first quarter. However, leasing rates remain strong with community centers showing 30.4% of available space leased over the last year, neighborhood centers totaling 35% and strip centers showing a robust 48.7%.

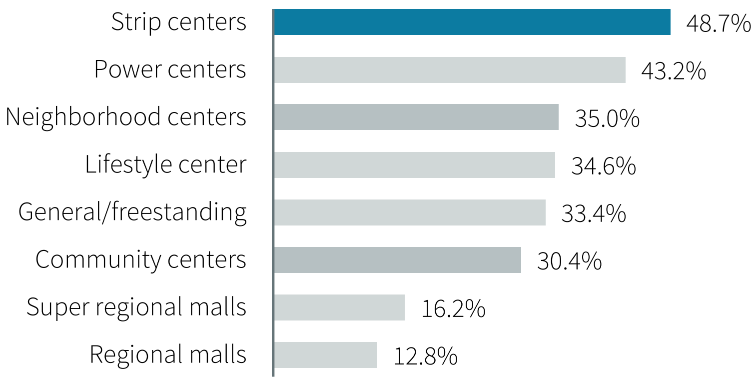
Strip centers have been in high demand over the past few years, with the availability rate dropping 160 basis points since 2019. Most active tenants signing new leases in strip centers in the first quarter include Crunch Fitness, ACE Hardware and Jerry's Foods.

Neighborhood and community centers' performance remains stable, despite a tepid first quarter. Top leasing activity came from Dollar Tree, Hobby Lobby and Harbor Freight Tools.

Shopping center fundamentals		
Q1 2024 net absorption	0.4 million s.f.	↓
Vacancy	5.2%	↓
NNN rent	$23.43	↑
Under construction	9.6 million s.f.	↓
Deliveries	1.9 million s.f.	↓

Source: CoStar
National index markets

Percent of available space leased by market – trailing 12 months



Source: CoStar

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

Shopping center move-ins during the quarter were centered around food, with grocers like H-E-B, Grocery Outlet and Aldi, opening locations. F&B tenants included Starbucks, Chipotle and First Watch. Service providers like staffing companies, tax preparation and cleaning services were also active during the quarter.

Q1 2024 shopping center move-in highlights

	Neighborhood centers	Community centers	Strip centers
Big-box tenants	H-E-B, Hobby Lobby, EoS Fitness, REI, Planet Fitness	Target, Tesla, LA Fitness, Sprouts Farmers Market, Michaels, Planet Fitness	Marshalls, The Learning Experience, Dollar Plus Store, Neptune Society
Smaller tenants	Five Below, Daiso, Starbucks, StretchLab, Crumbl Cookies	Crumbl Cookies, Banfield Pet Hospital, Boot Barn, Sephora	Wing Street, T-Mobile, HOTWORX, O'Reilly Auto Parts, Milan Laser Hair Removal

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