1Q25

The U.S. Retail Market: Conditions & Trends

NEWMARK

Market Observations

Economic Conditions and Retail Demand Drivers

- Consumer sentiment remains subdued, with concerns around tariff-driven inflation and a weakening job market leaving households uncertain about their financial outlook and expectations.
- However, hard indicators show that wage growth is solid and continues to outpace inflation. Consumers are still dining out and spending on books, sporting goods, hobbies, and personal care services.
- Retailers remain cautious about potential economic slowing due to tariffs, though discount grocers and warehouse clubs are well positioned to capture consumer demand in that scenario.

Capital Markets

- Retail investment sale volume in 1Q 2025 rose 13% from 1Q 2024 and 15% from 1Q 2023. Pricing and cap rates held relatively steady overall, with the exception of grocery-anchored retail, where cap rates have compressed over recent quarters. Top-quartile assets also saw cap rate declines, as luxury retail brands continue to invest heavily in high street locations.
- Retail values led all commercial property types in year-over-year growth at 4.6% and also posted the strongest 3-month gain—signaling continued pricing momentum.

Leasing Market Fundamentals

- 1Q 2025 marked the first quarter of net negative absorption since 3Q 2020, ending a 17-quarter streak of positive momentum. This trend is expected to persist through year-end, as retailers continue to scale back expansion plans and shutter underperforming locations.
- Even so, market fundamentals remain solid. The availability rate holds at 5.2%, and asking rents posted a modest 0.8% year-over-year increase.
- Retail space continues to perform at a high level, with sales per SF up 5.2% year-over-year and more than 50% above 2019 levels, despite a 1.7% decline in retail space per capita.

Outlook

- Net absorption is expected to remain negative throughout 2025, as retailers take a more conservative approach to expansion and accelerate closures of underperforming stores.
- Asking rents are projected to grow 1.6% in 2025, with a modest acceleration to 1.8% in 2026 under the base case. In a downside scenario, rent growth slows to 0.4% in 2025, dips to -1.0% in 2026, and rebounds to 1.2% by 2027—driven by limited new construction across retail formats.
- Consumers are expected to stay resilient, particularly among top-quartile income households. Middle- and lower-income consumers will likely trade down to stretch spending power.

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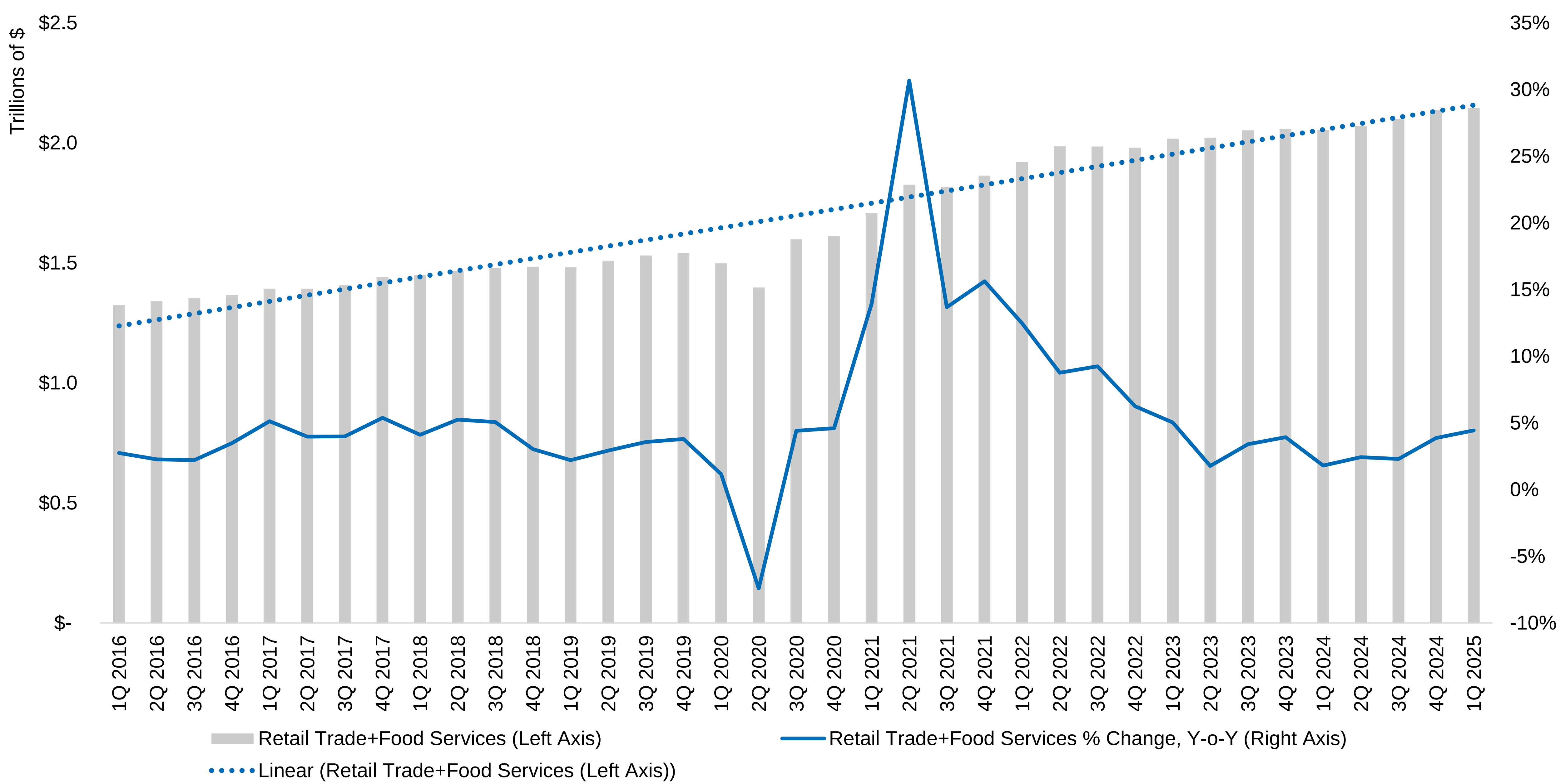
Economic Conditions & Demand Drivers

Retail Sales Grew 4.4% YoY in 1Q 2025

Retail sales rose in 1Q 2025, beating forecasts. This suggests a healthier consumer than expected, as unemployment stayed low and wage growth continued to outpace inflation.

Nominal Retail Trade and Food Service Sales by Year

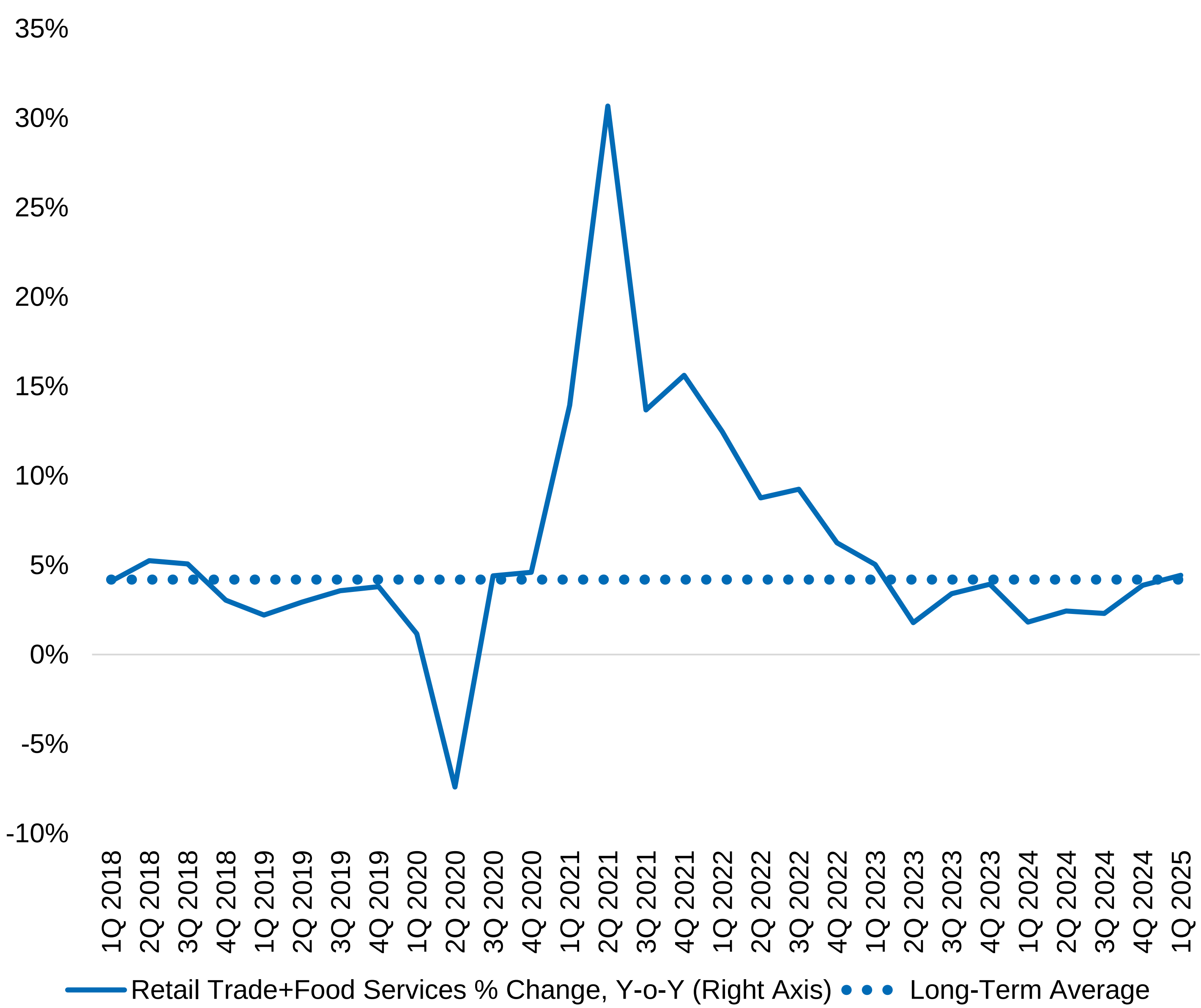


Source: U.S. Census Bureau, April 2025.

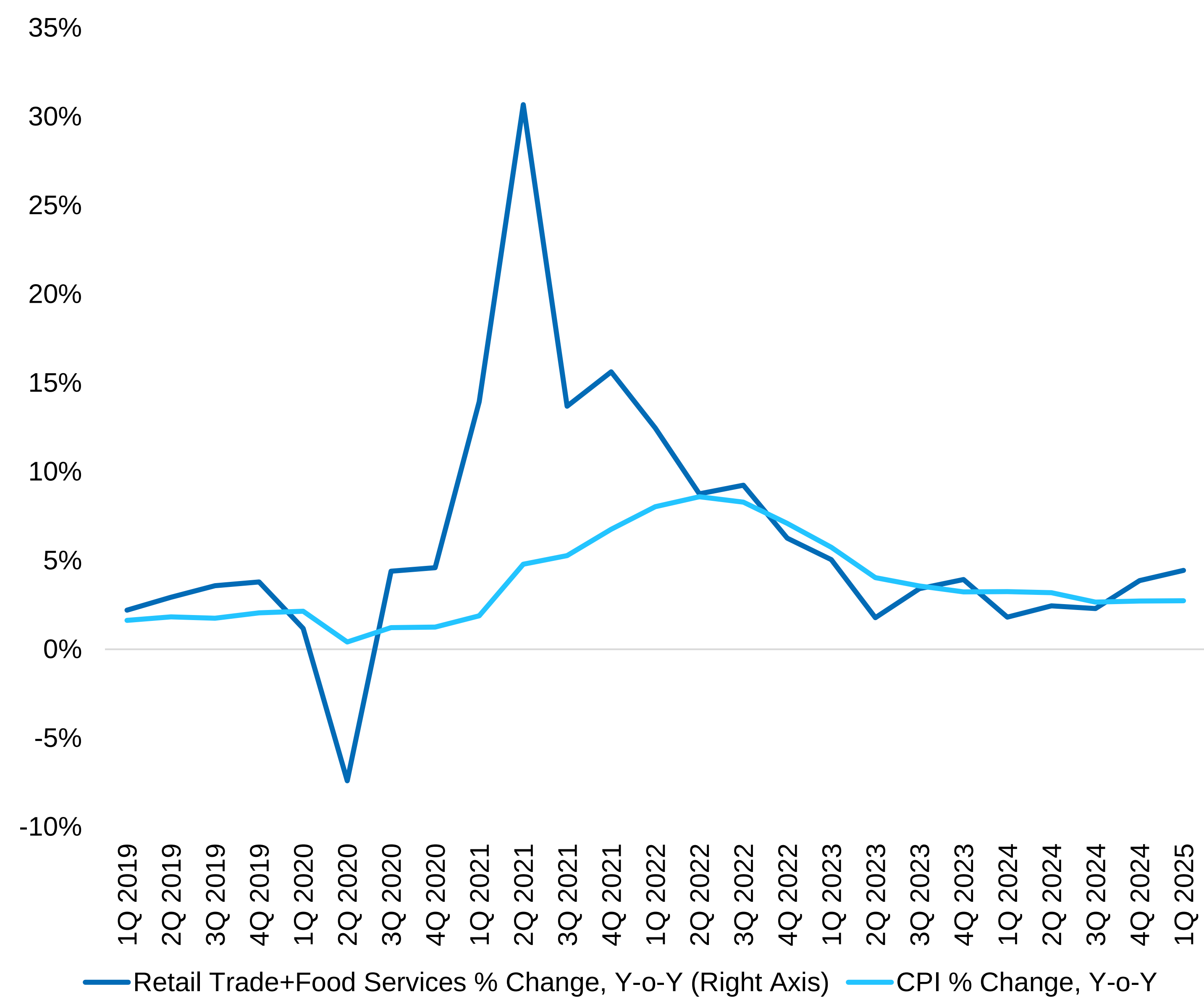
Quarterly Retail Sales Growth Edged Past Long-Term Average in 1Q 2025

The 4.4% year-over-year growth in retail sales and food services edged above the long-term quarterly average of 4.2% in 1Q 2025, marking the first time this has occurred since 1Q 2023. The growth rate also stayed ahead of CPI for the second straight quarter.

Retail Trade and Food Services % Change, Year-over-Year and Long-Term Avg.



Retail Trade and Food Services vs. CPI



Based on the Consumer Price Index for All Urban Consumers: All Items.
Source: U.S. Bureau of Labor Statistics, April 2025.
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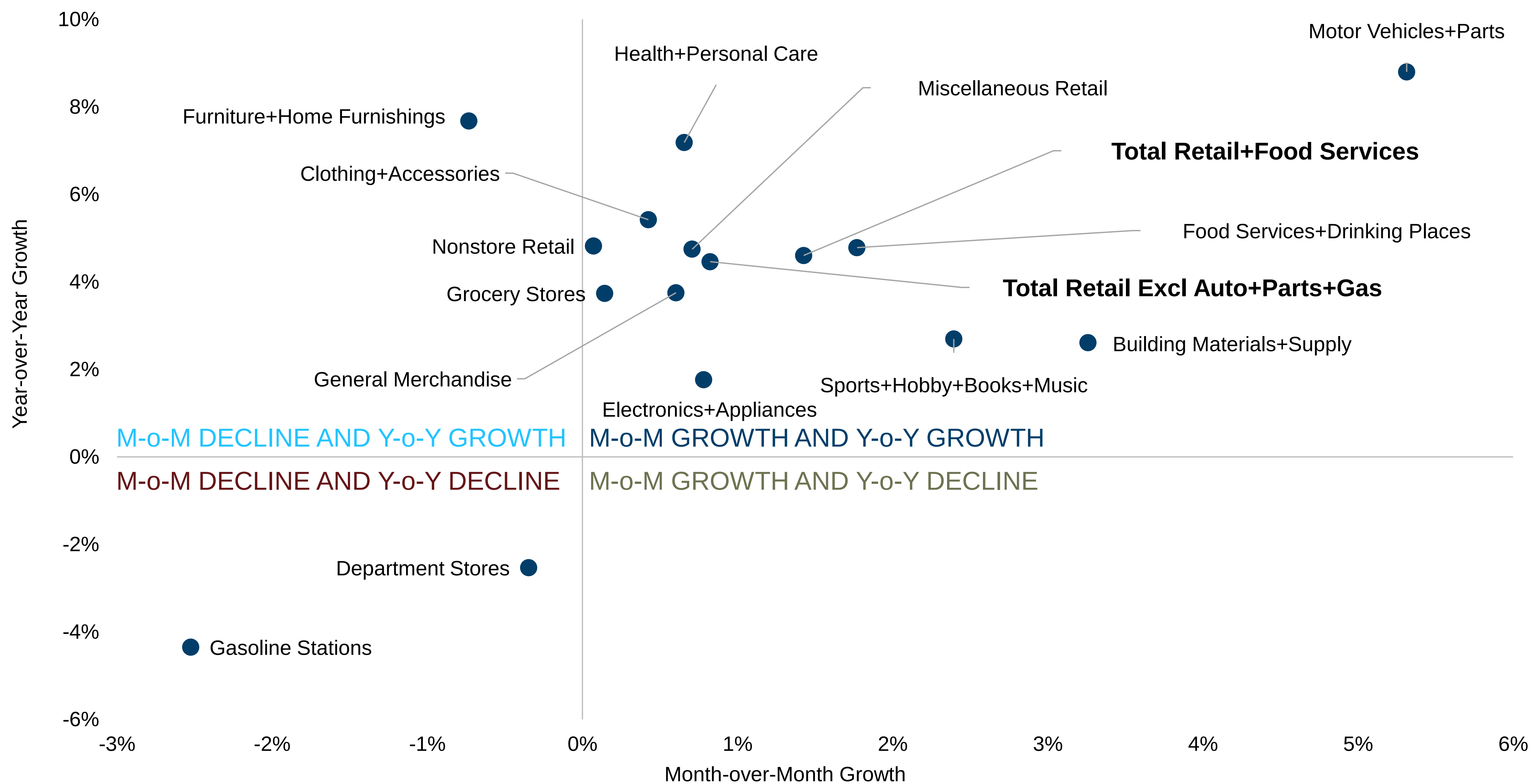
Auto Sales Surged in 1Q 2025

As the threat of tariffs emerged in the later weeks of 1Q, consumers accelerated big-ticket purchases in hard goods. Autos and auto parts led the way, rising 5.3% sequentially in March and reaching 8.8% year-over-year growth. Building materials and supplies followed, with a 3.3% sequential gain—the second-highest monthly total.

Retail Sales by Category, in % Change Year-Over-Year and Month-Over-Month



Source: U.S. Census Bureau, April 2025.

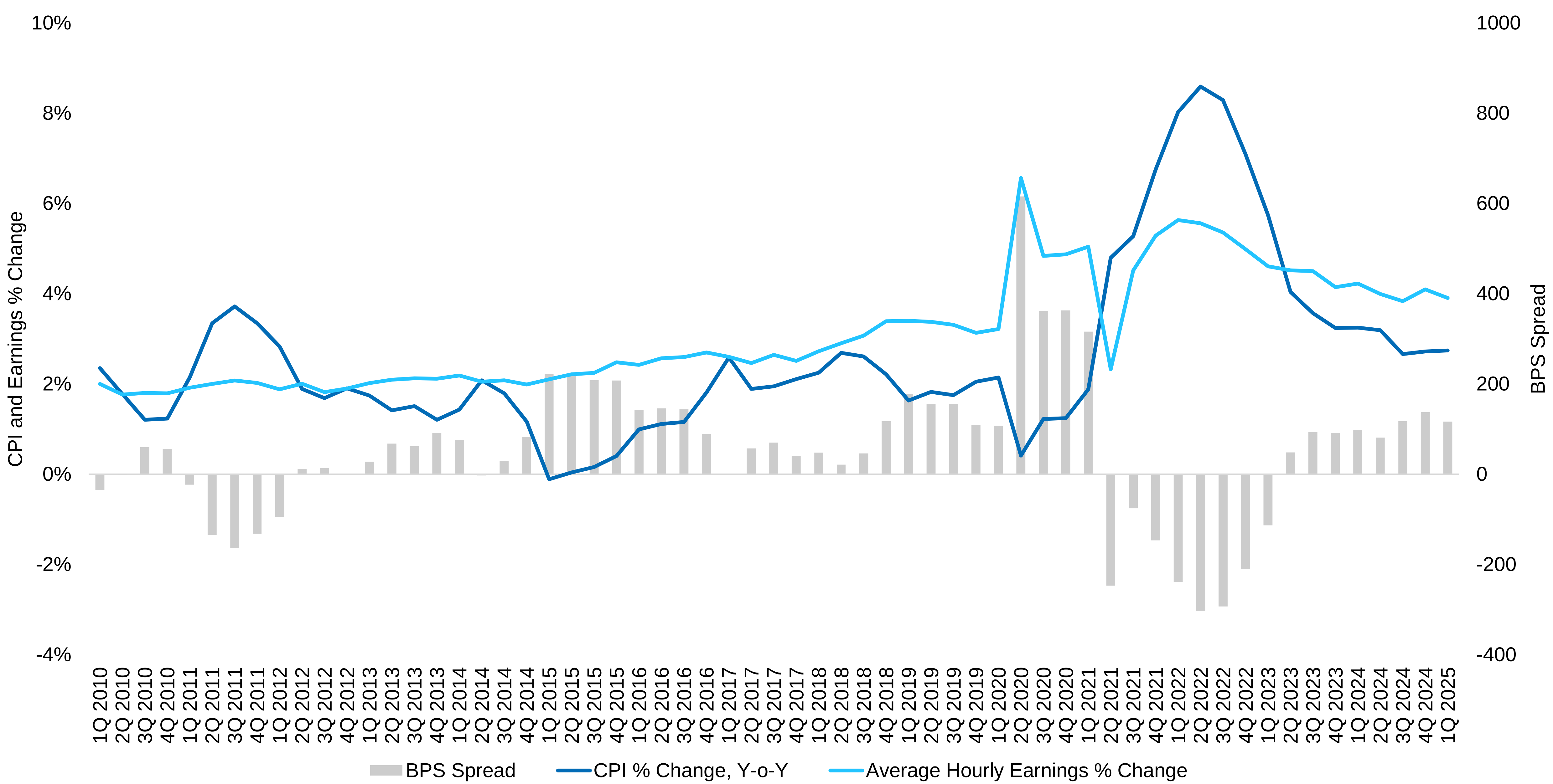
Auto Sales Surged in 1Q 2025

Hard goods such as autos, auto parts, and tools drove retail sales growth in 1Q 2025, likely as consumers “stocked up” ahead of potential tariff policy changes.

Wage Growth Continues To Counter Inflation

Wage growth gave up a slight edge to CPI but still outpaced it for the eighth straight quarter. This supported a 0.7% quarter-over-quarter and 1.5% year-over-year increase in real personal disposable income in the U.S. during 1Q 2025.

Wages vs. Inflation, in Year-over-Year Growth

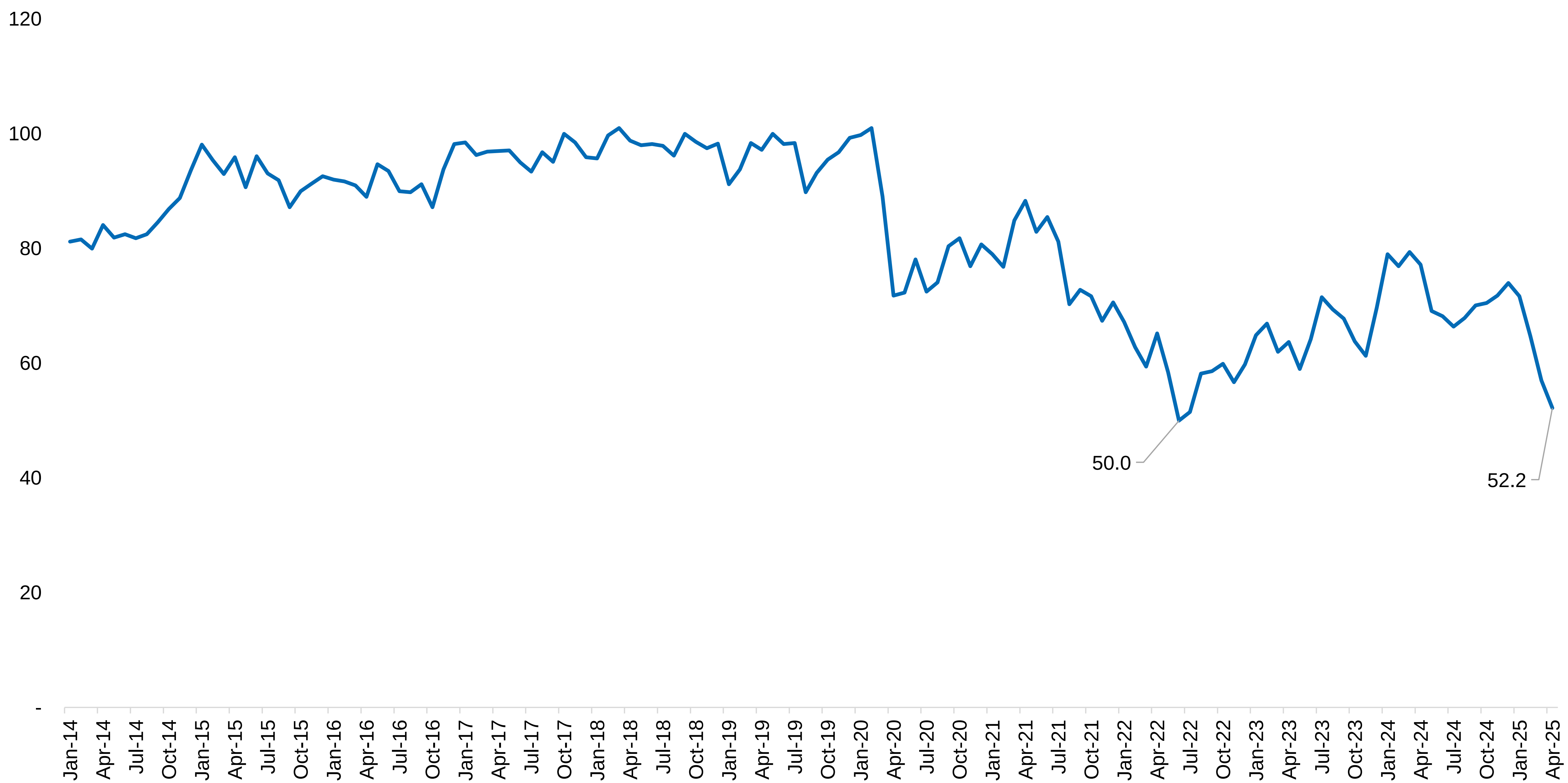


Based on the Consumer Price Index for All Urban Consumers: All Items, and the Average Hourly Earnings of All Private Employees.
Source: U.S. Bureau of Labor Statistics, April 2025.

With Tariffs Top of Mind, Consumer Sentiment Continues to Decline

Consumer sentiment declined 8% from March to April, according to the University of Michigan survey. Respondents pointed to perceived risks across the broader economy, including ongoing uncertainty around trade policy, which they fear could trigger a resurgence in inflation. Many also anticipate a weakening labor market and slower income growth—factors likely to curb consumer spending or prompt more value-conscious purchasing behavior.

Consumer Confidence Index – Current Economic Conditions

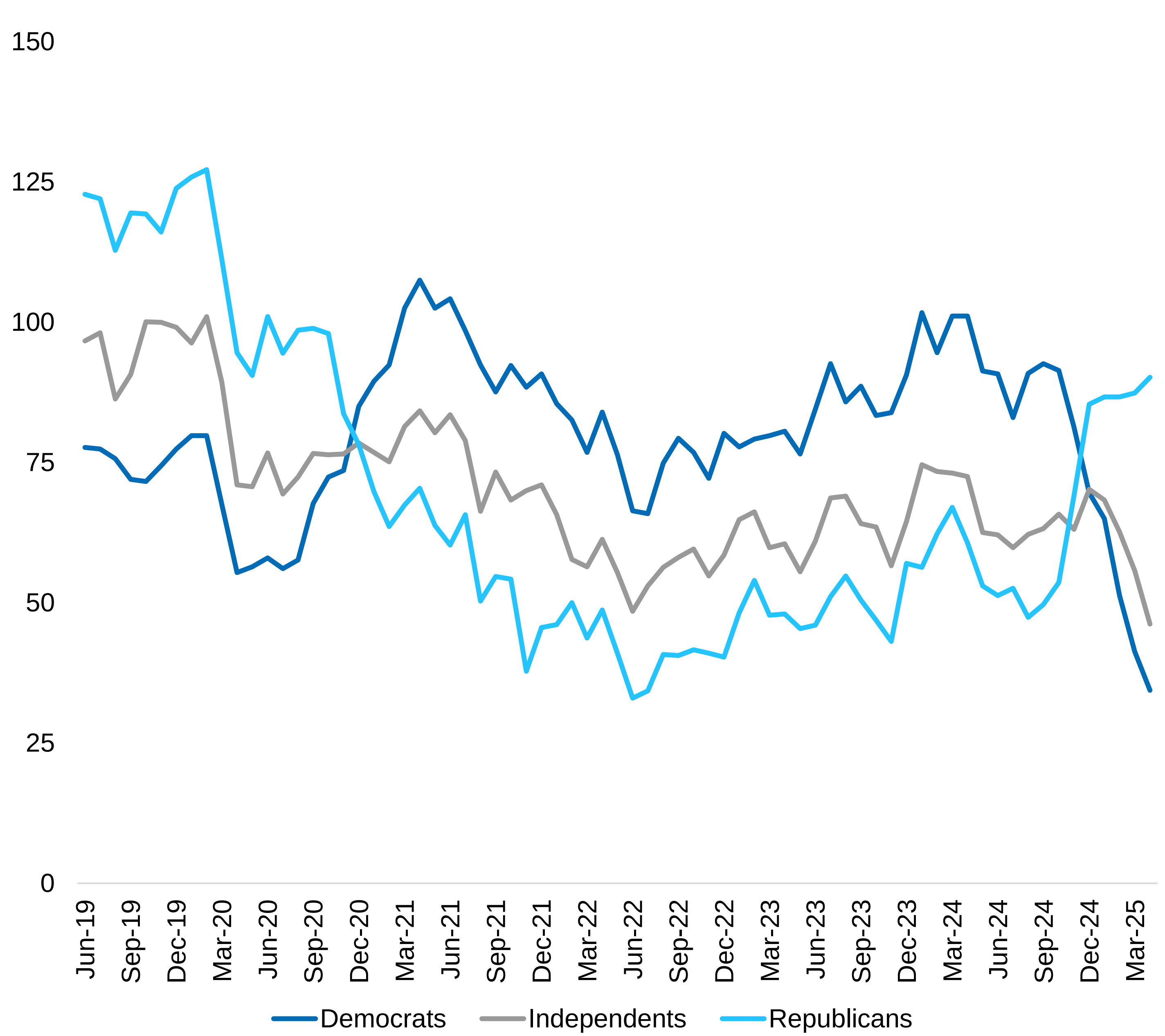


Source: University of Michigan, April 2025.

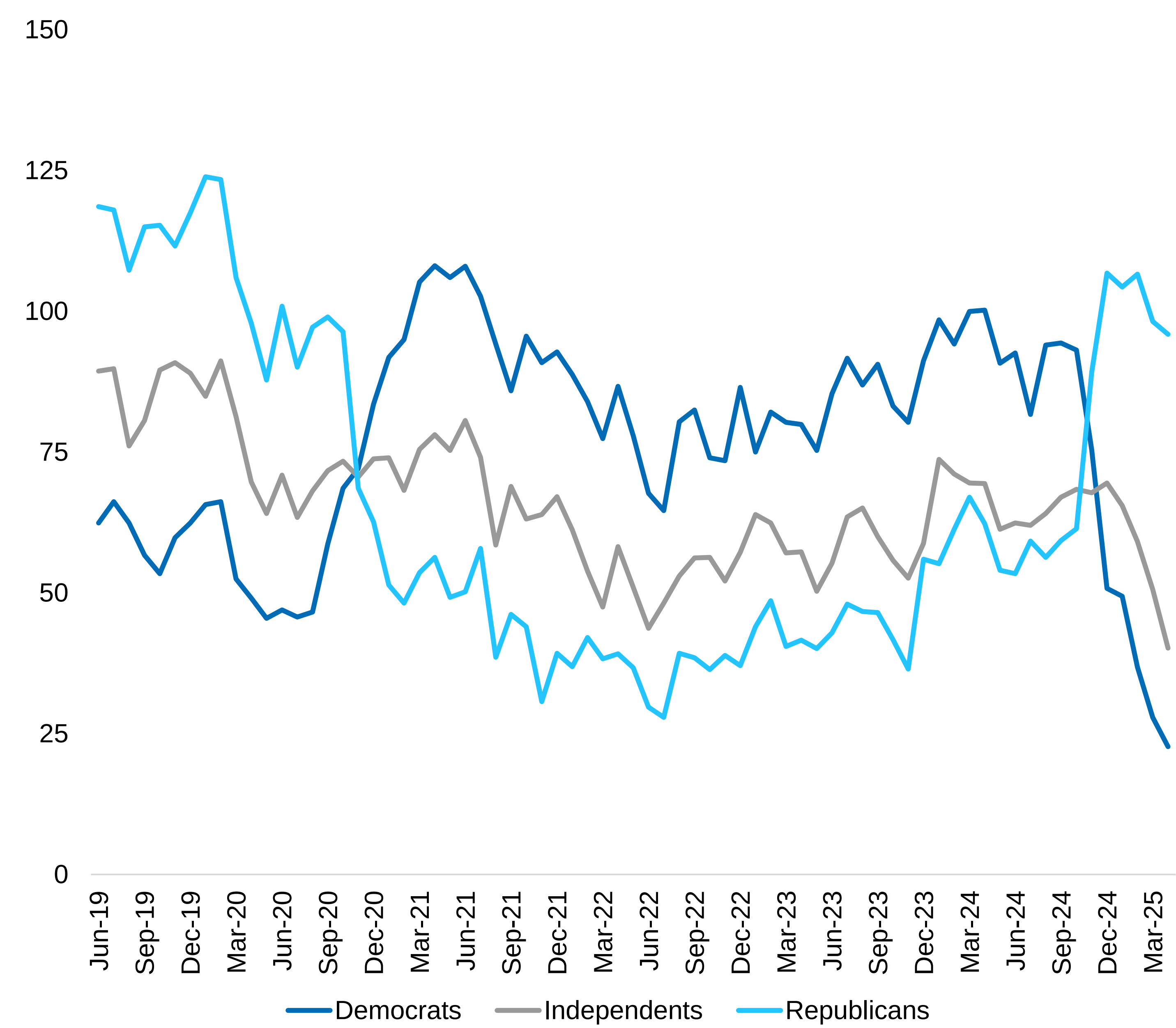
Consumer Confidence Remains Split Along Political Lines

Consumers aligned with the Republican party continue to show a rebound in current sentiment, though they acknowledge increased uncertainty ahead, with future sentiment slipping over the past two months. Meanwhile, both current and future sentiment among Democrat- and Independent-aligned consumers continues to decline. Sentiment around future economic conditions for these groups has now reached its lowest level since at least January 2018.

Consumer Confidence Index – Current Economic Conditions



Consumer Confidence Index – Future Economic Conditions

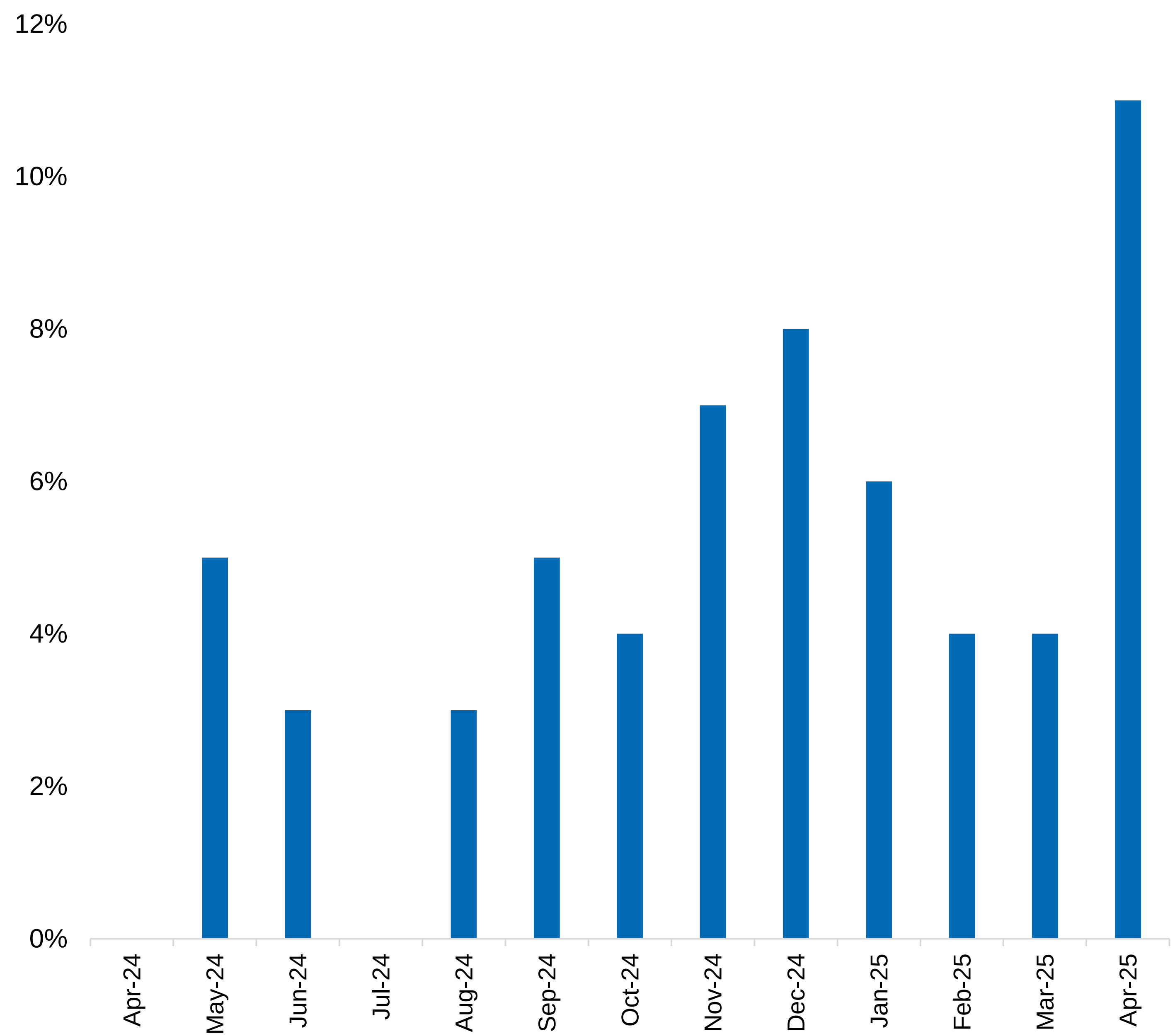


Source: University of Michigan, April 2025.

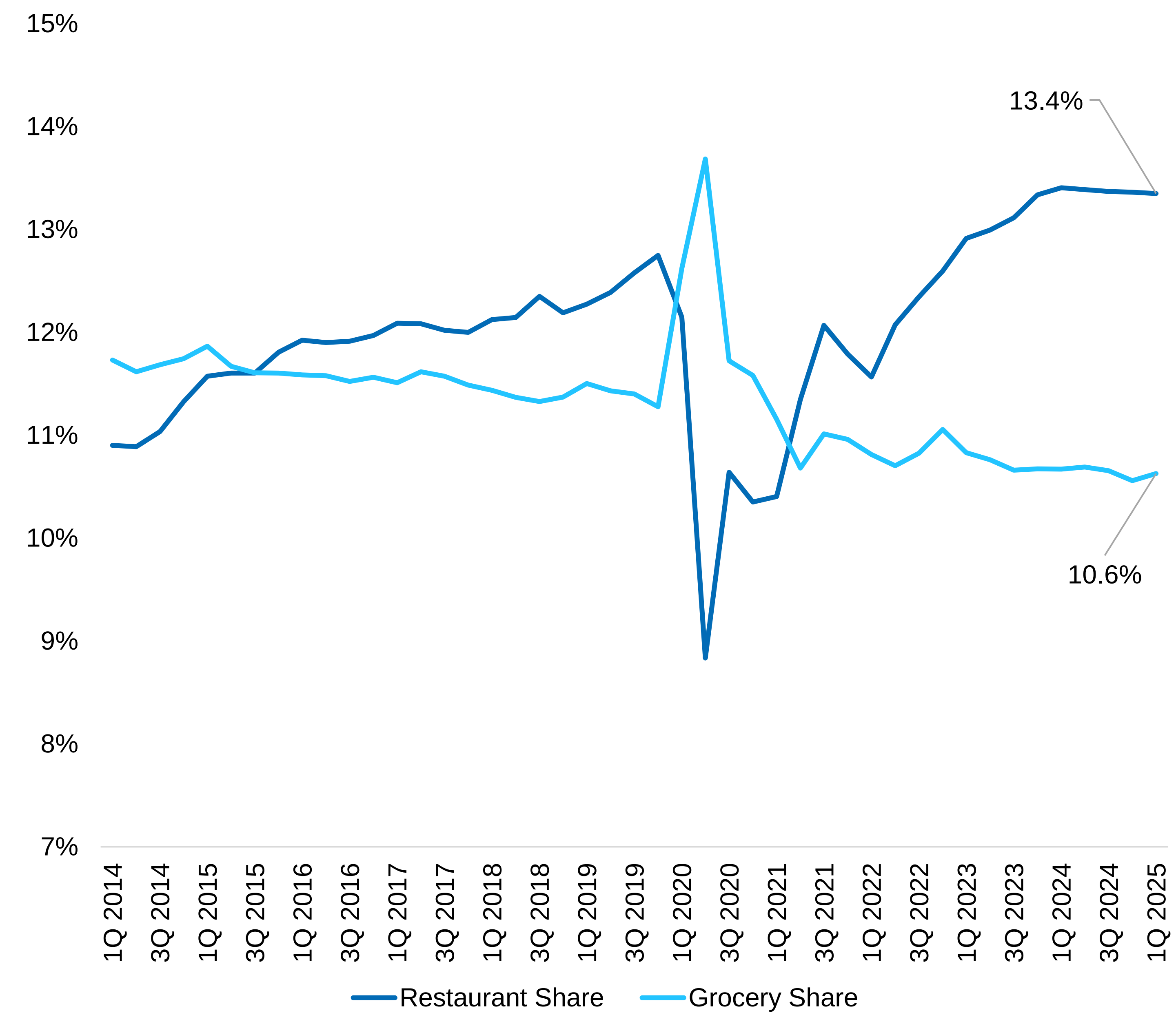
Despite Tariff Pressures, U.S. Consumers Still Dining Out

According to OpenTable, restaurant dining has remained elevated compared to last year, especially in April. However, the restaurant share of total retail and food services has seen a consistent, though modest, decline over the past four quarters—pointing to potential trade-down behavior toward more affordable meal options. At the same time, the grocery share of total retail and food sales ticked up quarter-over-quarter, following an all-time low in 4Q 2024.

Seated Diners at Restaurants, Year-over-Year % Change



Restaurants vs. Grocery Stores in % Share of Total Retail And Food Sales



Source: OpenTable State of the Industry, St. Louis FRED, April 2025.

Despite Tariff Pressures, U.S. Consumers Still Dining Out

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Other Ways Tariffs Could Affect Consumers

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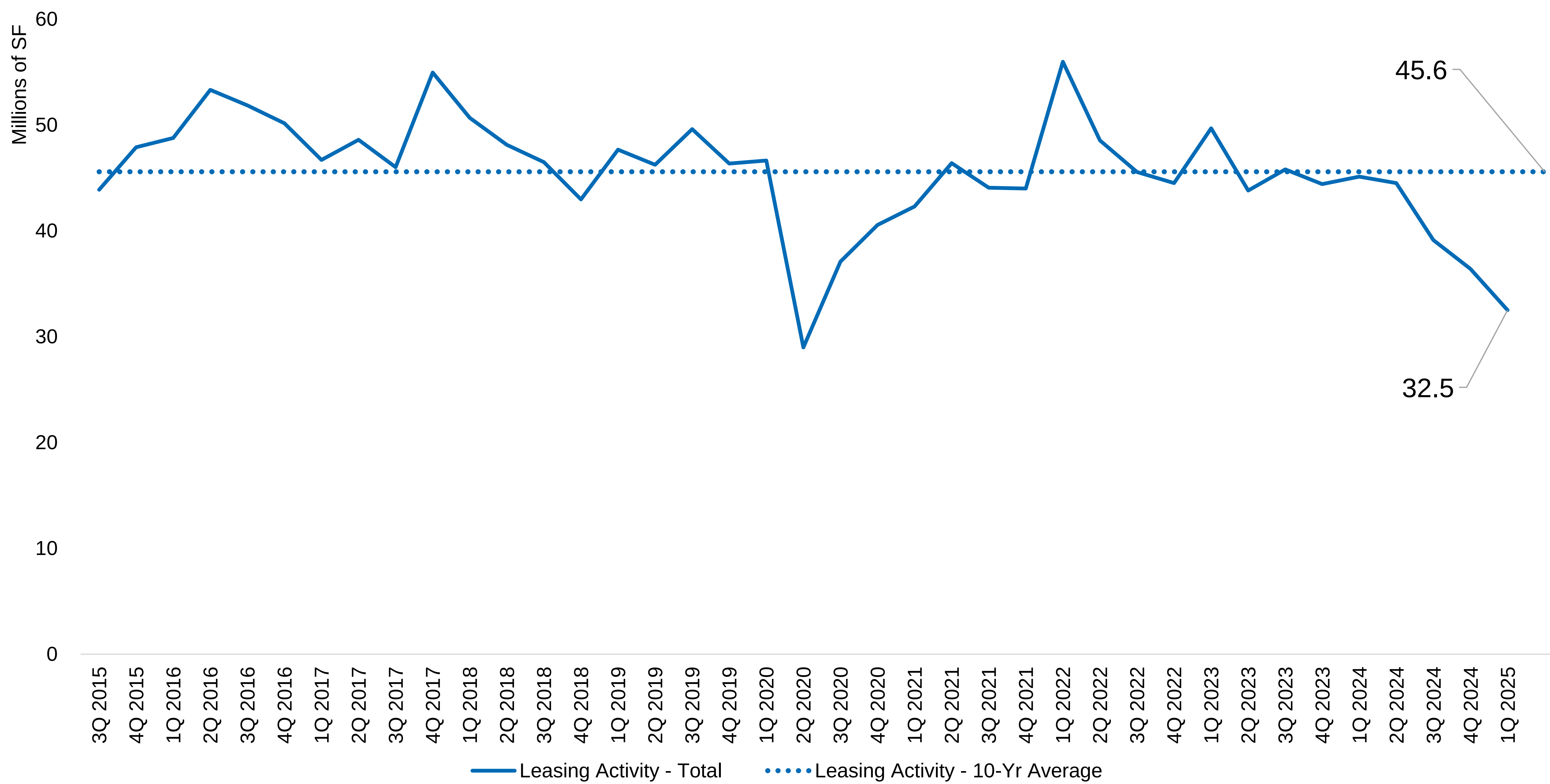
Leasing Market Fundamentals

An Uncertain Economic Outlook Weighs on Retailer Leasing Plans

Retail leasing activity totaled just 32.5 million SF in 1Q 2025, the second-lowest quarterly figure since 1Q 2005, surpassing only 2Q 2020 during the pandemic and falling nearly 29% below the long-term average. The market remains polarized—while retail REITs report solid leasing activity and maintain deep “signed not occupied” pipelines, underperforming centers in slow-growth areas are losing tenants as retailers scale back their physical footprints.

Quarterly Leasing Activity vs. Ten Year Average for Retail CRE

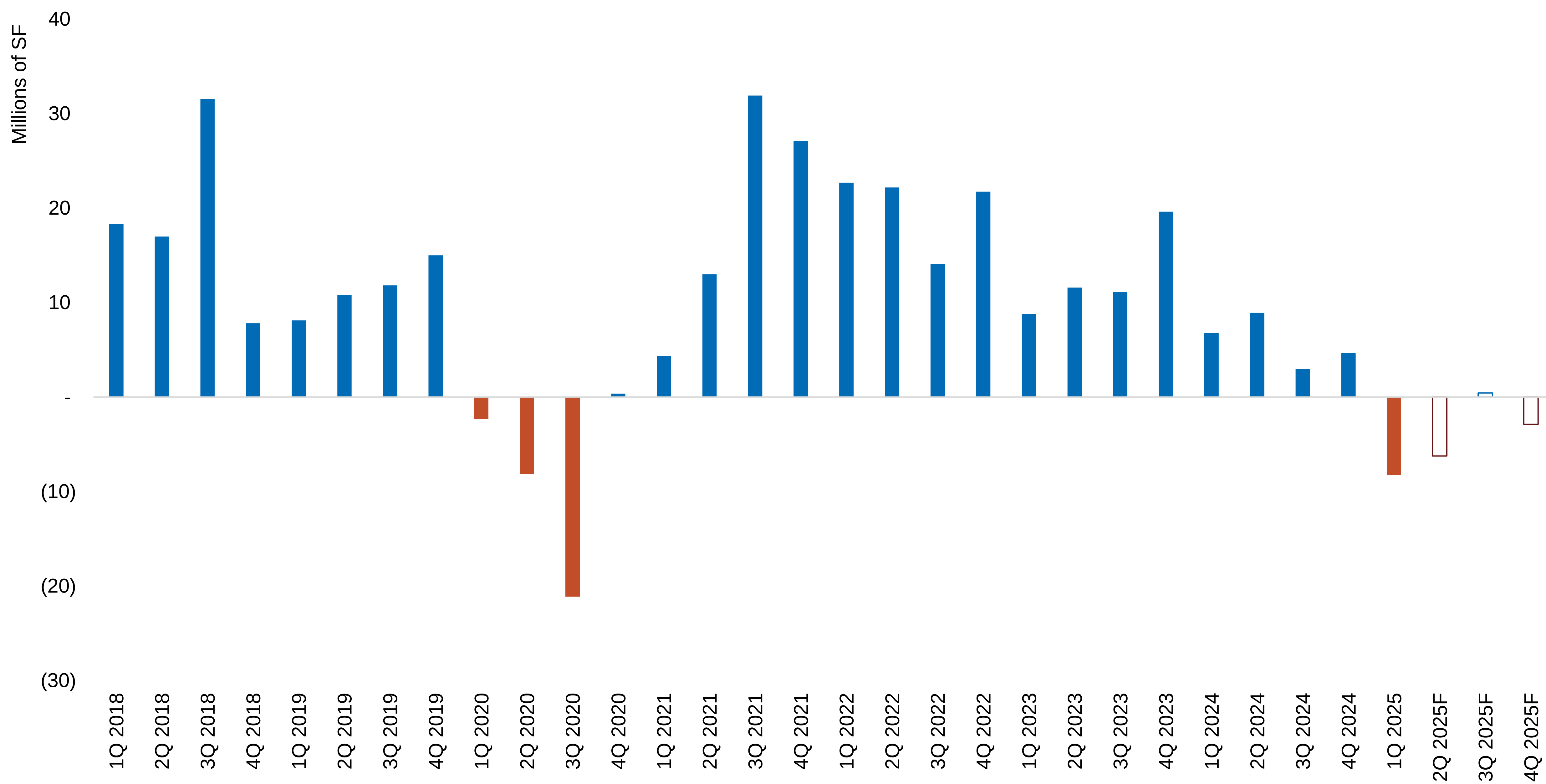


Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 1Q 2025.

Net Absorption Turns Negative As Store Closures Finally Catch The Market

Net absorption turned negative in 1Q 2025, as a wave of previously announced store closures began to outweigh slowing new leasing activity. The quarter posted 8.2 million SF of net negative absorption—the lowest level since 3Q 2020—ending a 17-quarter streak of net positive absorption. This shift is expected to continue, with some retailers pausing expansion plans amid ongoing uncertainty around tariff policy. However, prime retail assets should remain unscathed by the trend.

Retail Net Absorption by Quarter

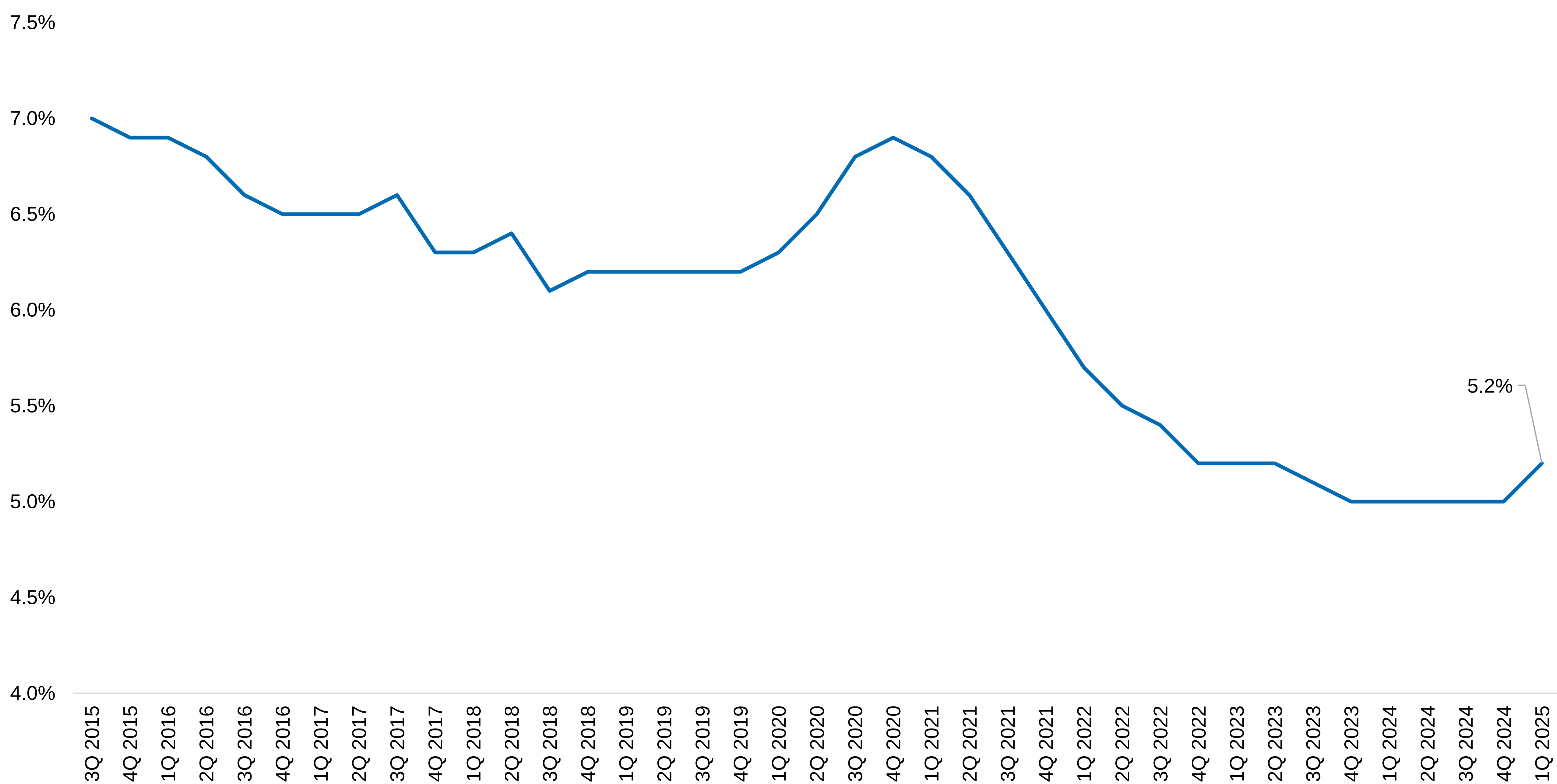


Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 1Q 2025.

Retail Availability Ticks Up 20 bps As Store Closures Accumulate

Although the U.S. retail availability rate remains historically low, it inched up to 5.2% in 1Q 2025—the first increase since 4Q 2020. The uptick is concentrated in freestanding retail and lower-rated malls, which continue to face challenges in attracting new tenants or replacing closures. Availability is expected to rise further through 2025, though limited new development will likely keep the increase modest.

Historical Availability for Retail CRE, All Formats



Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 1Q 2025.

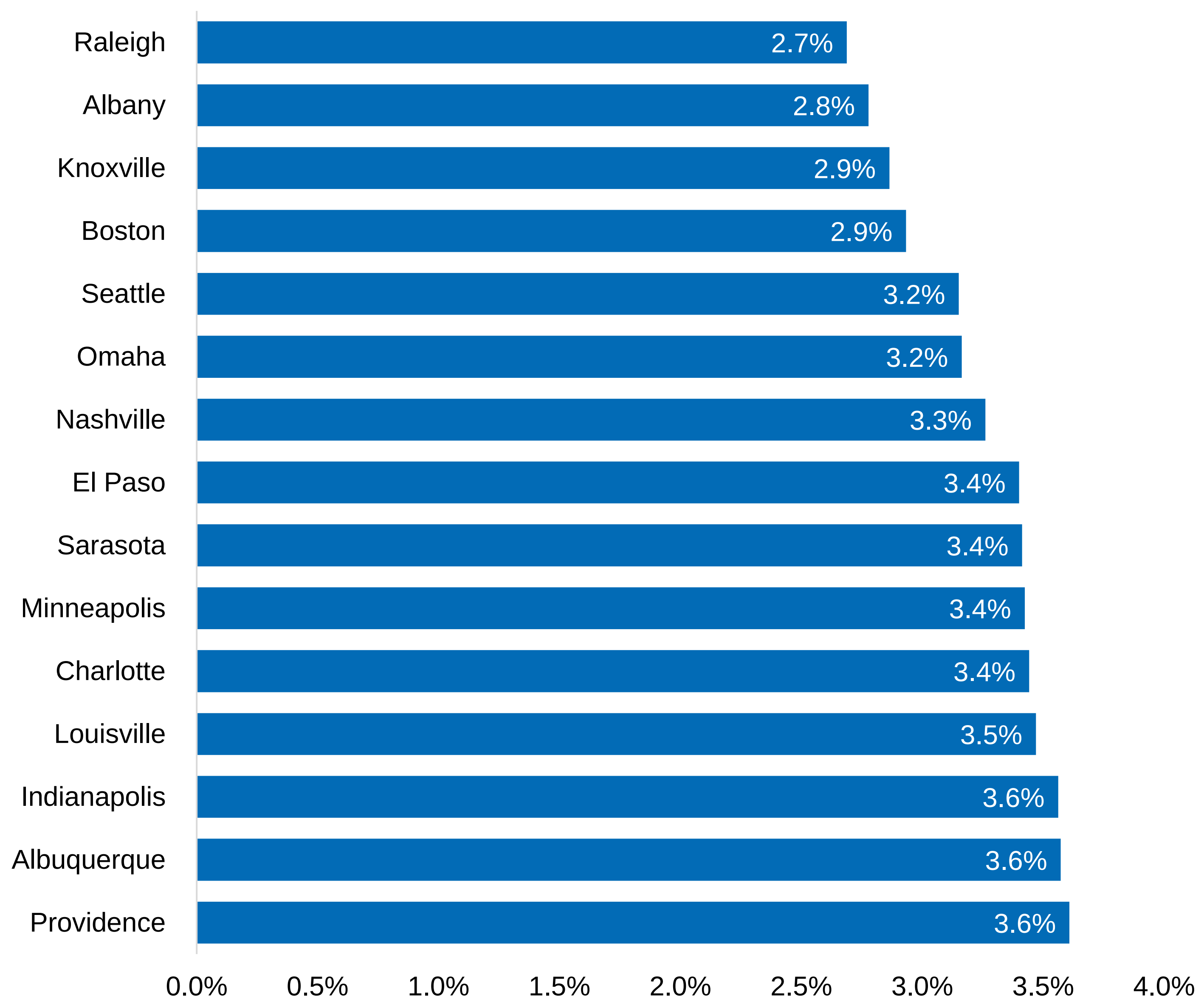
Absorption Turns Negative, Although New Deliveries Remain Low

The lack of significant new retail development has helped keep availability low, even as leasing activity and absorption have declined.

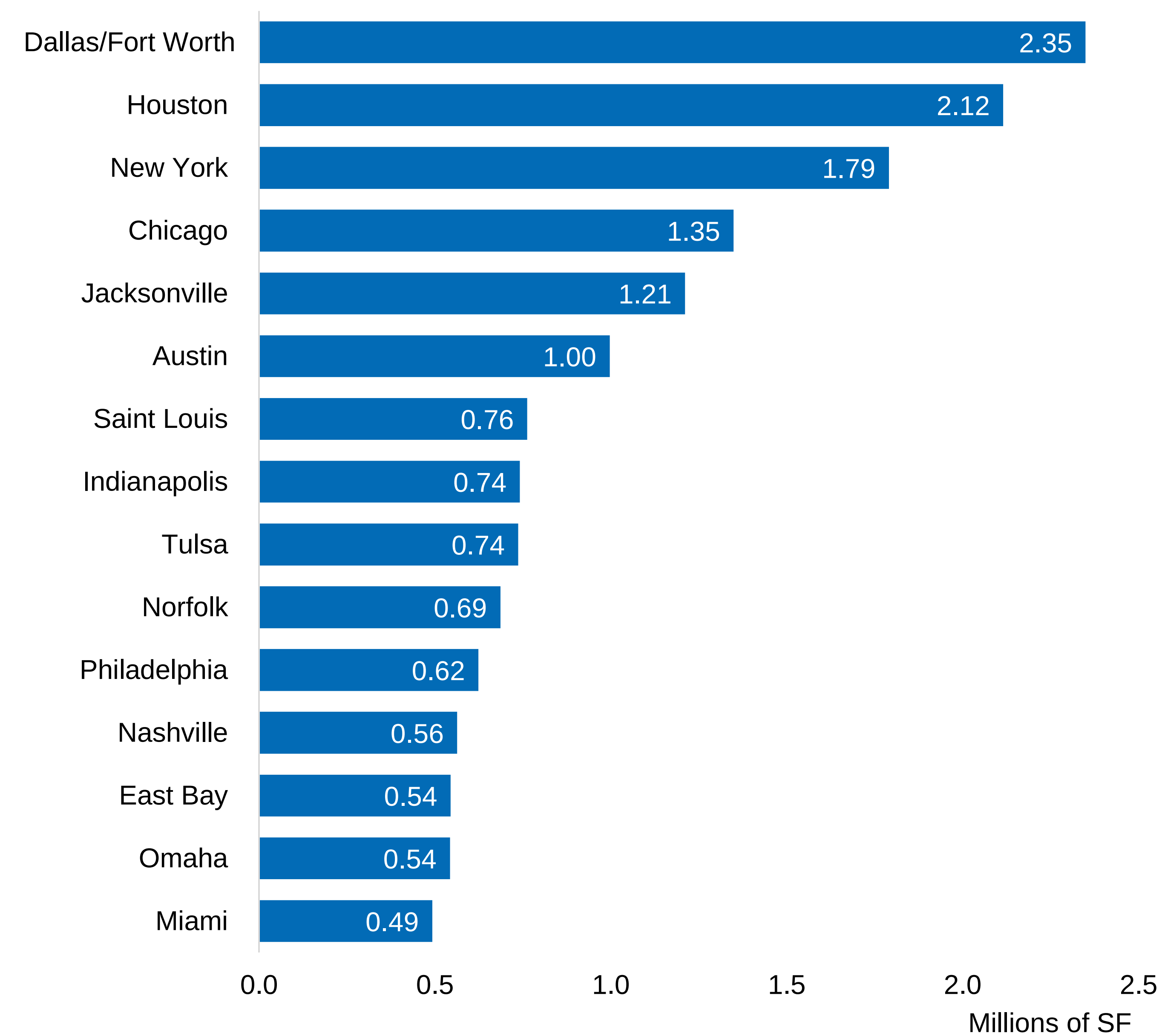
Top 15 U.S. Markets in Retail Availability and 12-Month Absorption Total

Retail CRE remains tight in select markets, with Raleigh posting the lowest availability rate at just 2.7%. Primary markets like Boston and Seattle also rank among the 15 tightest in terms of availability. On the absorption side, Dallas–Fort Worth leads with a rolling 12-month total of nearly 2.4 million SF, followed by Houston, New York, Chicago, and Jacksonville, which posted a notable 1.2 million SF to round out the top five.

Top 15 Markets in Availability, 1Q 2025



Top 15 Markets in Net Absorption, 12-Month Total

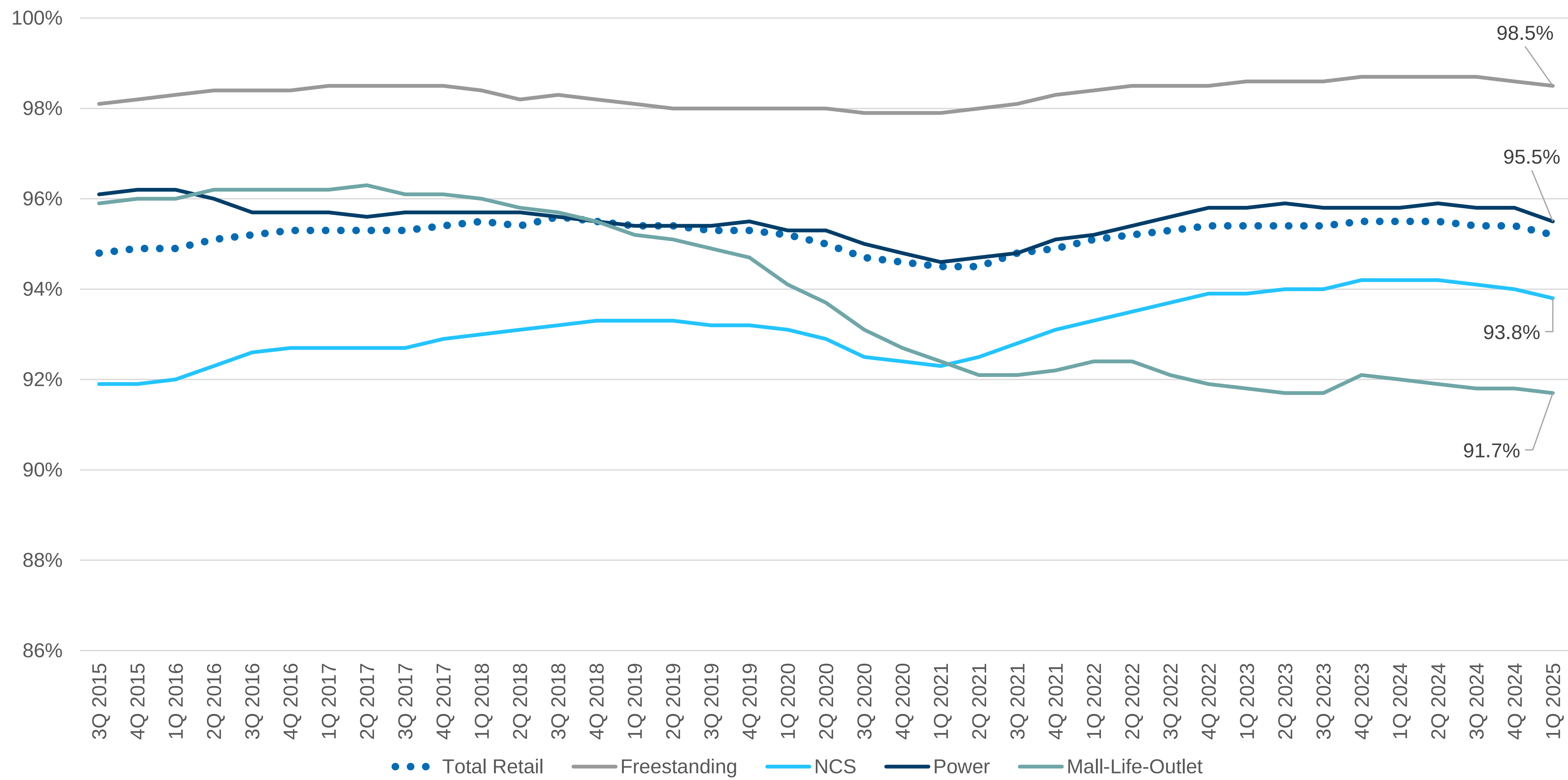


Considers all retail markets with over 50 million sq. ft. of retail inventory.
Source: CoStar, 1Q 2025.

Occupancy Declines Across All Retail Formats

Overall, all retail formats saw a slight decline in occupancy, as retailers reevaluated their footprints—either pausing expansion plans or accelerating closures in preparation for what could be a challenging year in retail.

Historical Occupancy for Retail CRE, by Format



Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 1Q 2025.

Divide Between Class A Malls and Class C Malls Continues to Widen

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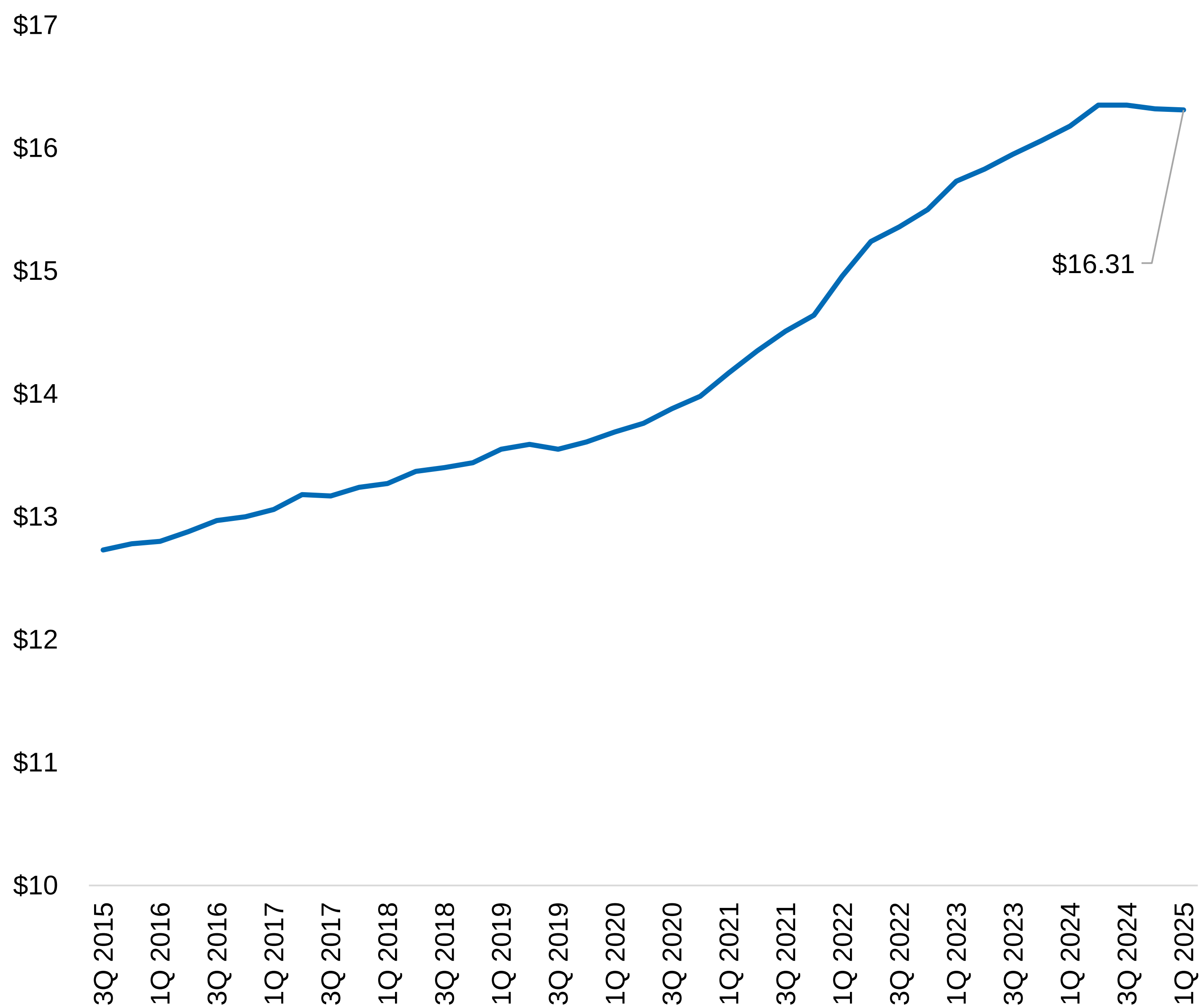
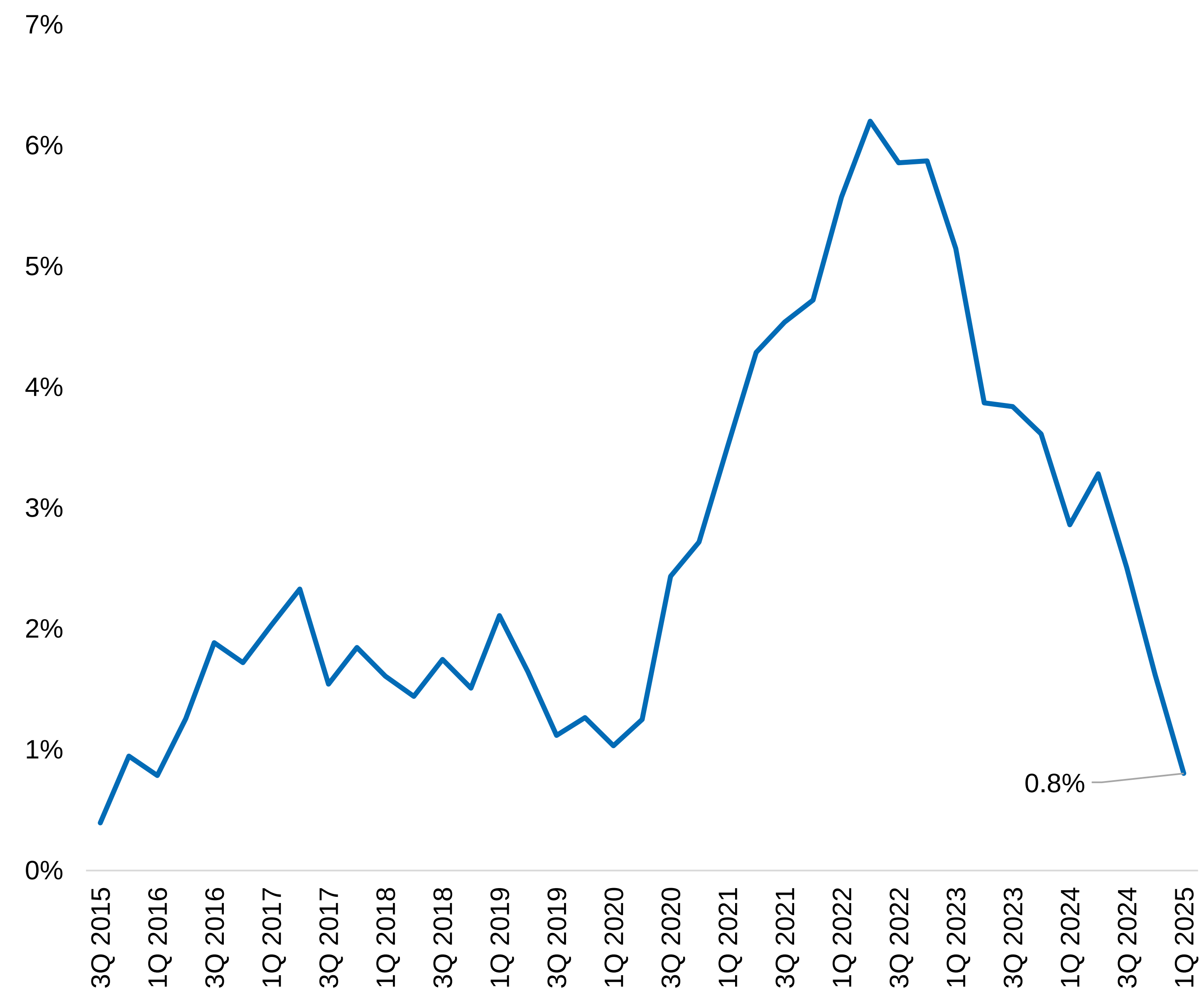
Asking Rents Level Off ; Inferior Sites Hitting Market

Predictably, asking rents have leveled off, with a slight sequential decline of 0.1% and year-over-year growth of just 0.8%. The growing availability of subprime space—particularly big-box vacancies—is expected to continue putting downward pressure on rents.

Asking Retail CRE Rent, $/SF/NNN



Asking Retail CRE Rent, in % Change Year-over-Year



Source: CoStar, 1Q 2025.

Net Absorption, Deliveries, and Asking Rents by Retail Format

Retail Space Maintains Strong Sales Productivity

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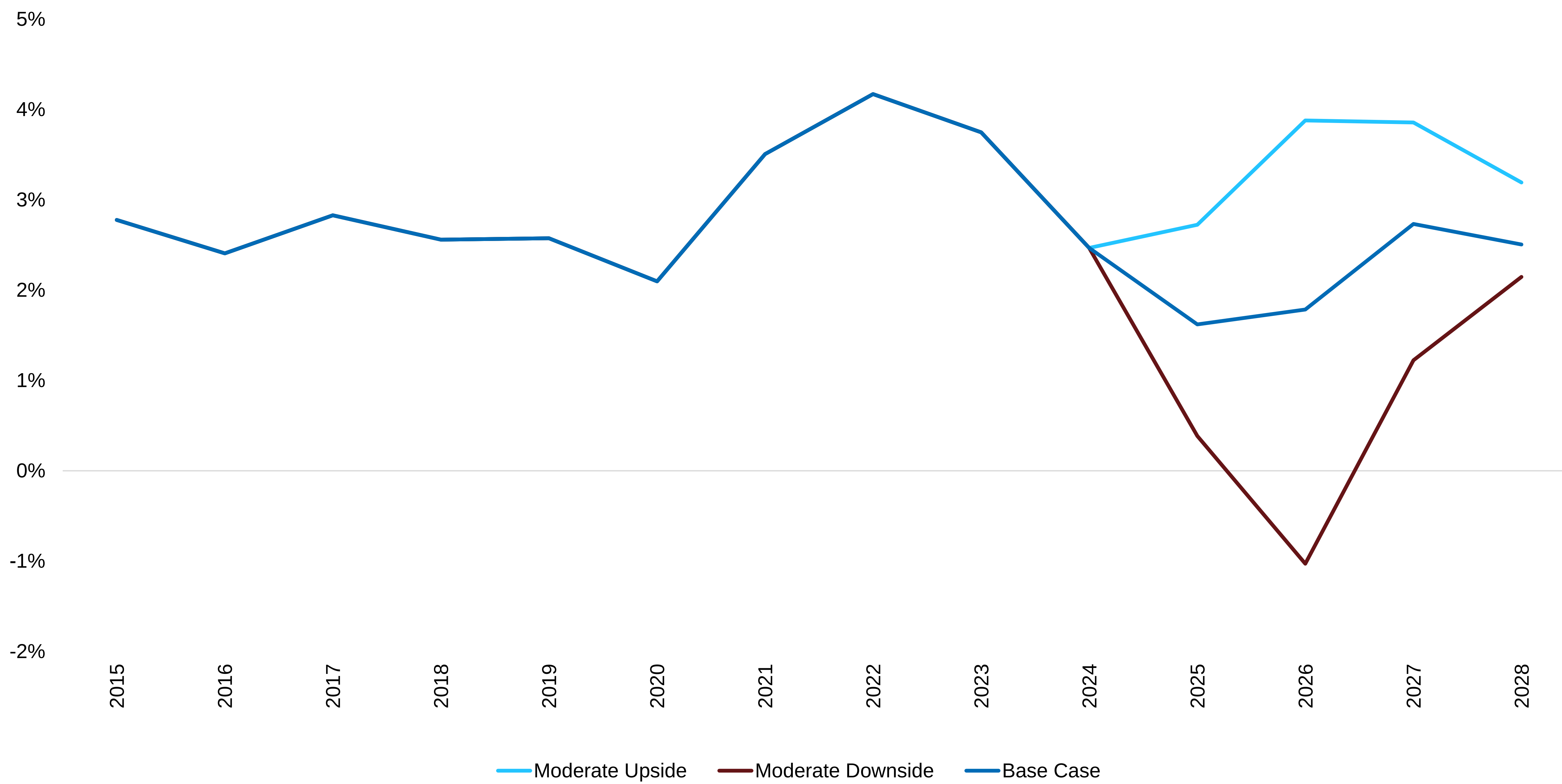
Suburban vs. Urban

After several quarters of suburban retail availability running tighter than urban, that trend has largely faded, driven by a combination of back-to-office momentum and the closure of underperforming chain store locations.

Trade Tensions Add Uncertainty to Retail Rent Outlook

The baseline forecast for retail market asking rents projects 1.6% growth in 2025. In a moderate downside scenario, rents are expected to decline 0.4% in 2025 and fall further by 1.0% in 2026, reflecting the likelihood that retailers will continue accelerating store footprint optimization strategies, including the closure of underperforming locations. In a moderate upside scenario, asking rents could grow 2.7% in 2025 and hold between 3–4% annual growth through 2028.

Retail Rent Growth Forecast by Economic Scenario



Source: CoStar, 1Q 2025.

U.S. Apparel Retailers Gradually Diversify Supply Chain Partners

How Tariffs Could Impact Retailers

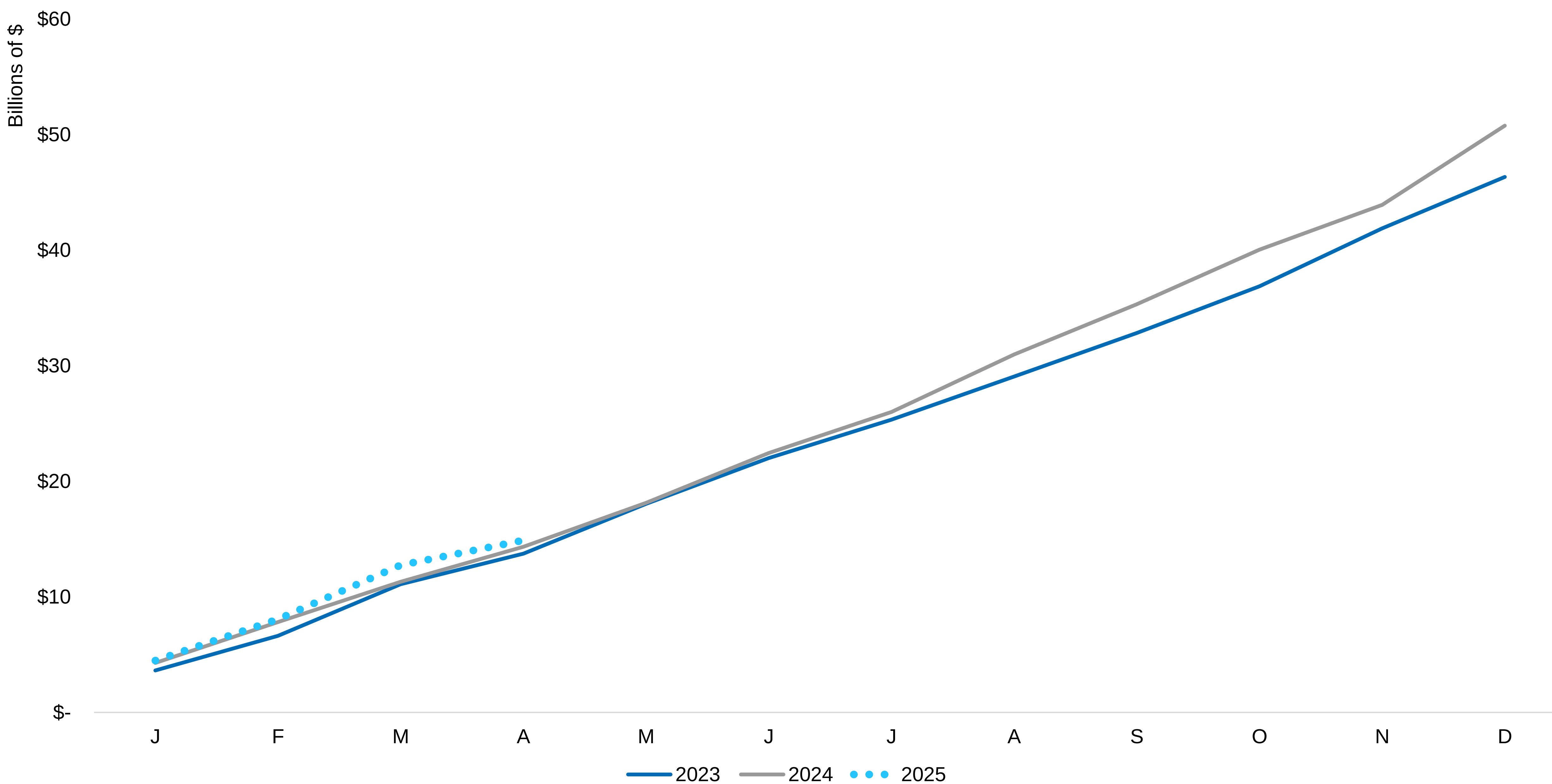
1Q25

Capital Markets

Retail Investment Sales Start Strong In 2025

Retail investment sales are off to a slightly stronger start in 2025, with year-to-date cumulative volume up about 4% over 2024 and 8% above 2023. March volume totaled $4.7 billion—the second-highest March figure since 2020, trailing only March 2022.

Investment Volume for Retail CRE

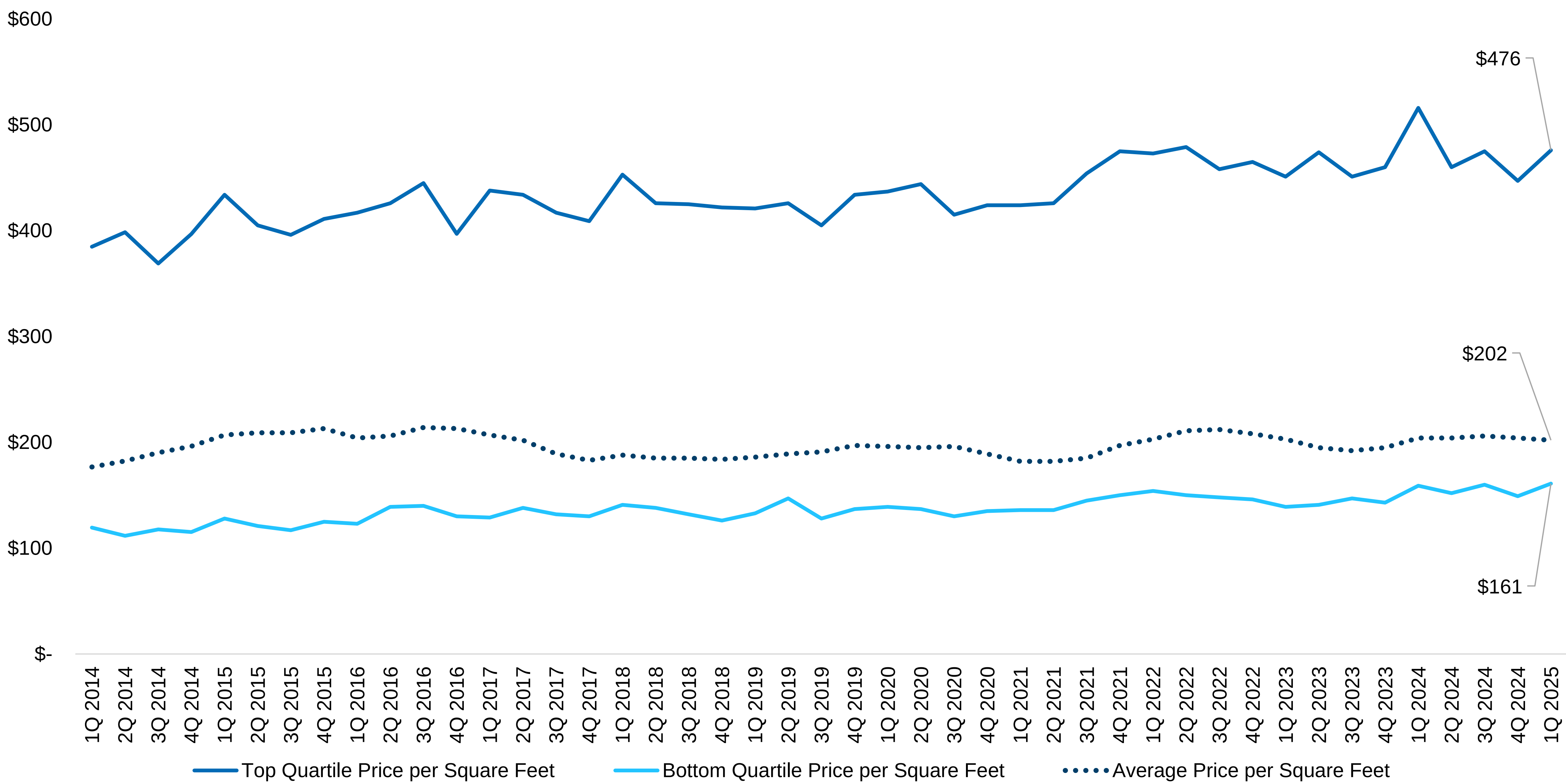


Source: MSCI Real Capital Analytics, April 2025.

Price Per SF For Retail Assets Remains Stable

The average price per SF for retail assets declined by just under 1% both sequentially and year-over-year, as most pricing metrics held steady. Top quartile prices rose 6.5% quarter-over-quarter but remain down 7.8% from a year ago. Bottom quartile assets saw an 8% sequential increase and are up just over 1% year-over-year.

Price Per SF for Retail CRE

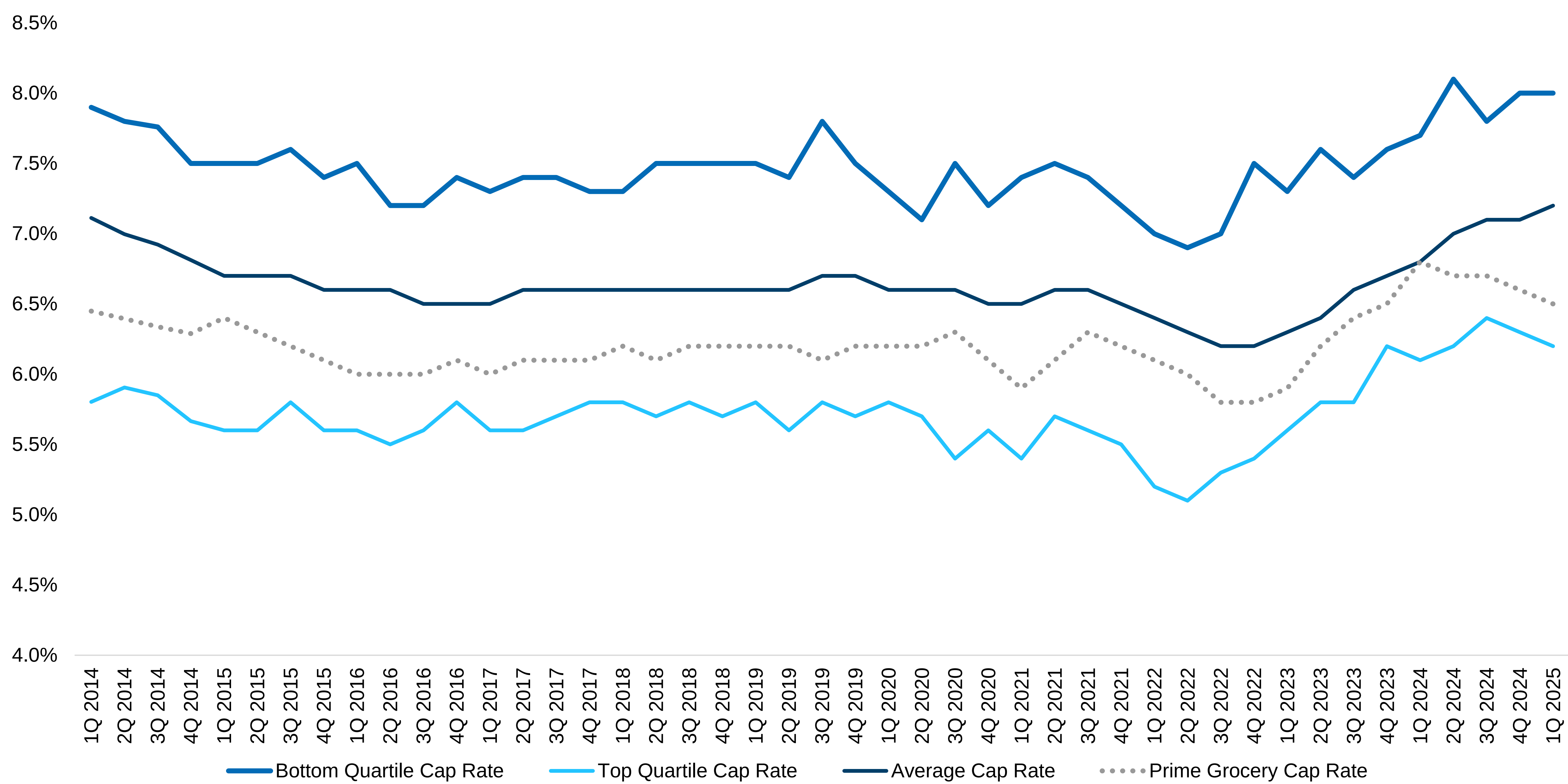


Source: MSCI Real Capital Analytics, January 2025.

Prime Grocery-Anchored and Top-Quartile Cap Rates Decline Again

Average retail cap rates are now at their highest level in the past decade, having risen 40 bps over the last year. In contrast, cap rates for prime grocery-anchored centers declined by 10 bps quarter-over-quarter and 30 bps year-over-year.

Cap Rates for Retail CRE



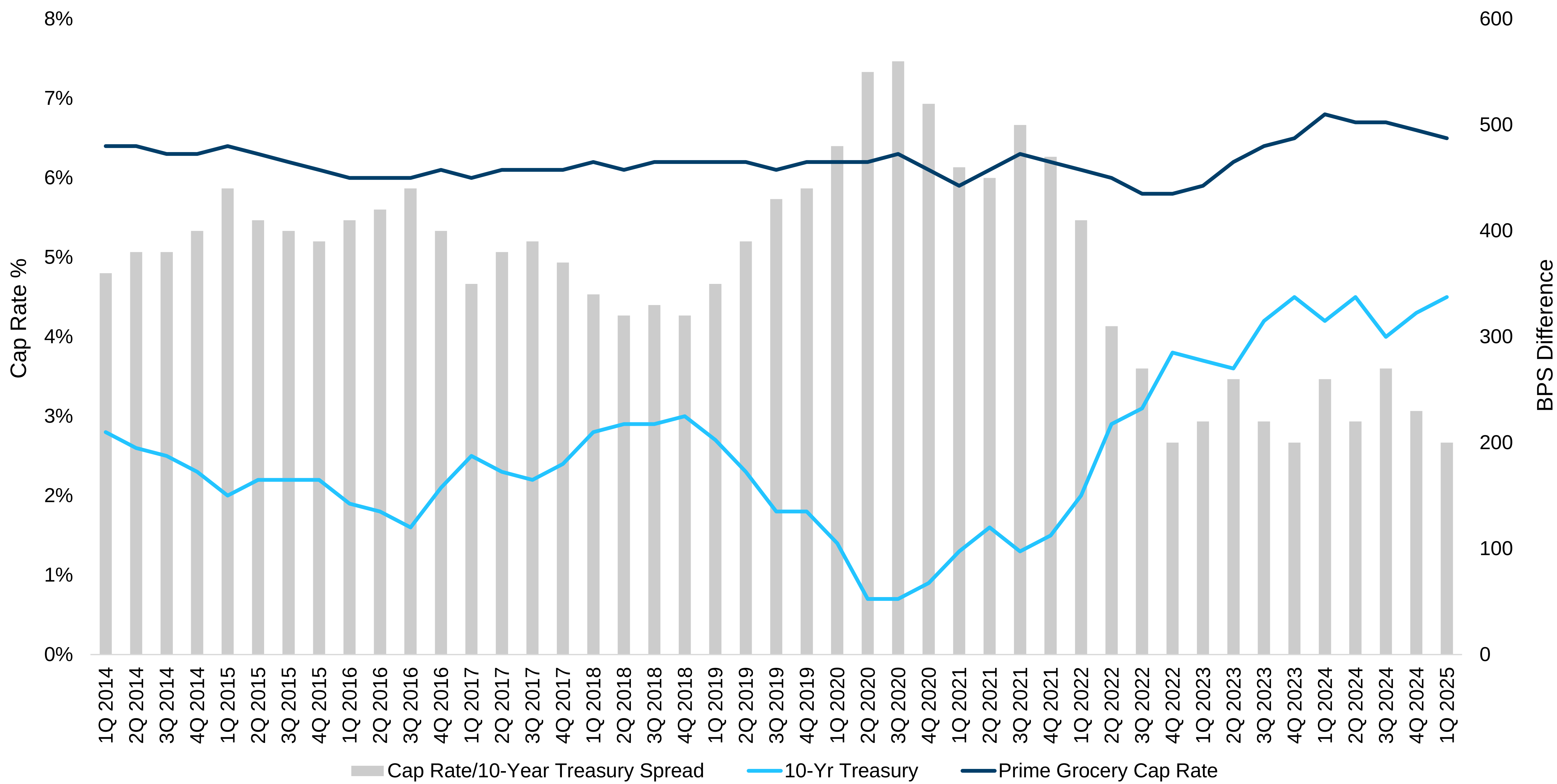
Source: MSCI Real Capital Analytics, April 2025.

Prime grocery-anchored retail assets remain in high demand, as need-based retail continues to show the most resilience amid consumer uncertainty.

Spread Between Prime Grocery Cap Rates & 10-Year Treasury Narrows Further

As prime grocery cap rates have declined, the spread between them and the 10-Year Treasury has narrowed to just 200 bps—tied for the lowest level in the past ten years.

Cap Rates for Retail CRE



Source: MSCI Real Capital Analytics, January 2025.

Retail Leads Year-over-Year Growth in CRE Values Index

Retail CRE values rose 4.6% year-over-year in 1Q 2025, the highest increase among all property types. Retail also led in quarterly growth, with values up 1.8% over the past three months.

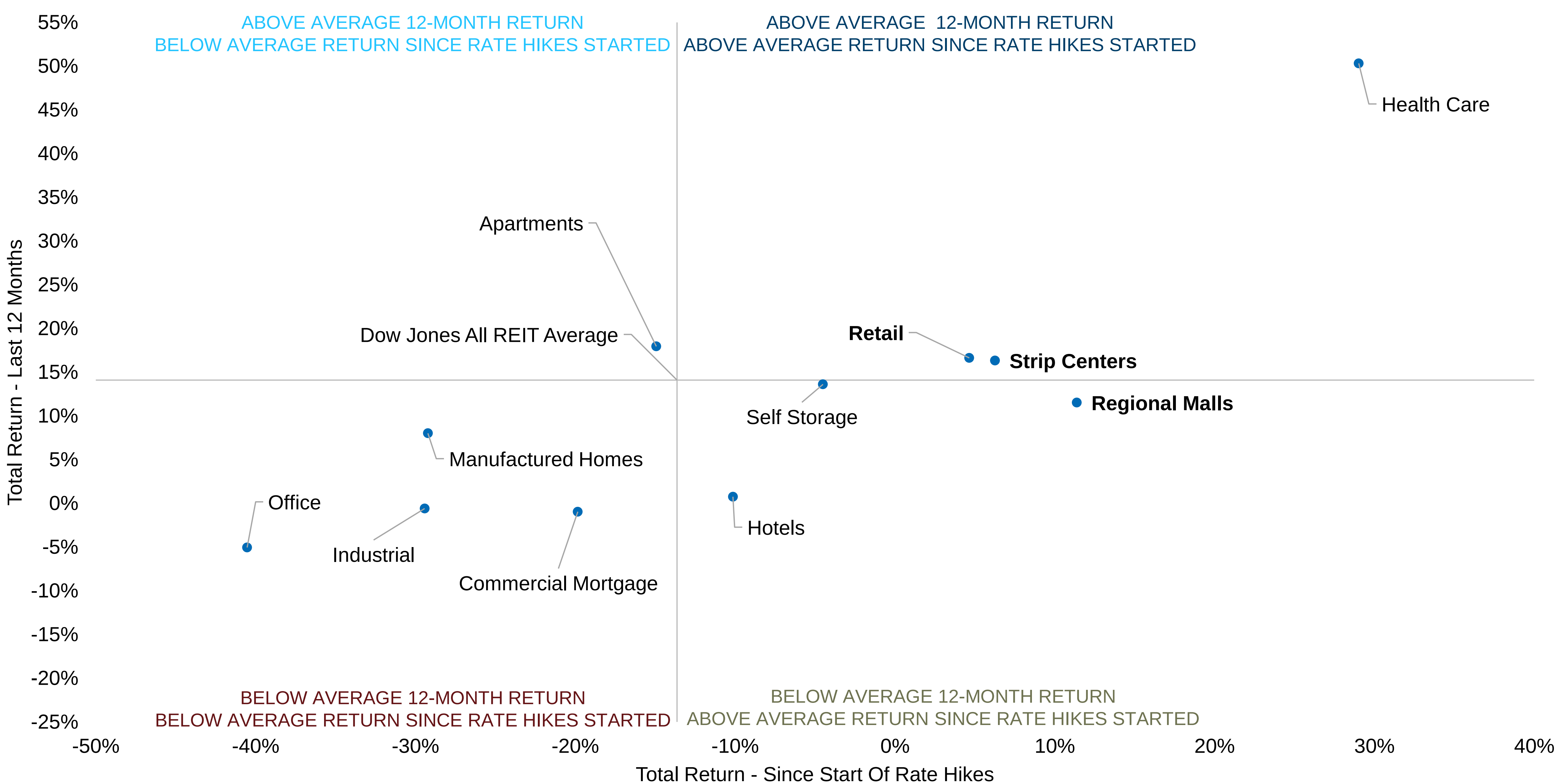
MSCI RCA CPPI Index

Source: MSCI Real Capital Analytics, 1Q 2025.

Retail REITs Outperform as Industrial and Office Lag

All REIT sectors except Healthcare pulled back in 1Q 2025. Over the past 12 months, Healthcare (+50%), Apartments (+18%), Retail (+17%), and Strip Centers (+16%) have outperformed the overall REIT index (+14%). In contrast, Commercial Mortgage (-1%), Industrial (-1%), and Office (-5%) REITs continue to lag behind the index average in 2025.

Dow Jones REIT Index Total Returns



Source: Dow Jones, Moody's, Newmark Research as of 4/28/2025

Retail returns have remained above average across all formats since the start of interest rate hikes.

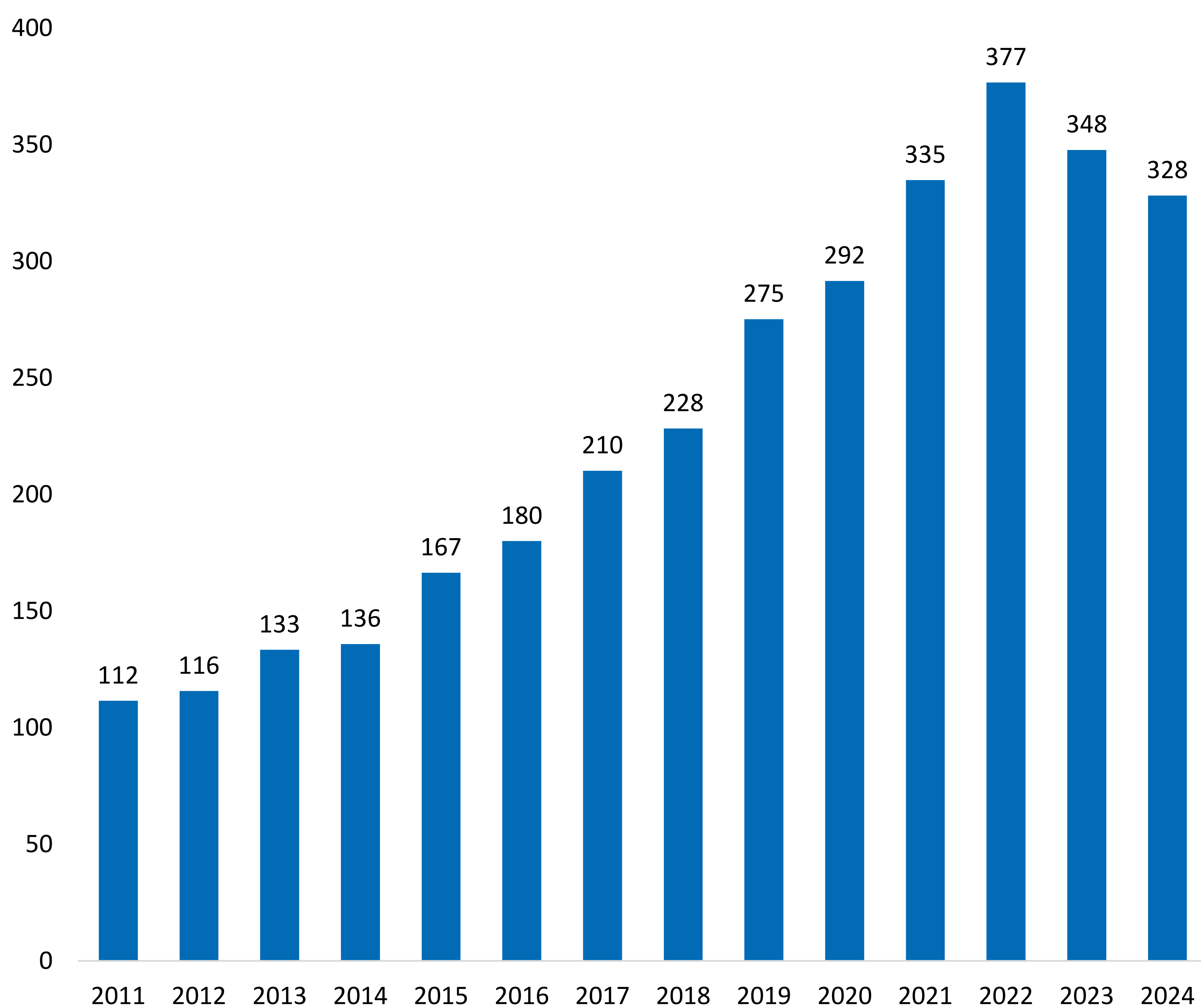
Class A Malls Outperformed in 2024

Quality matters in retail. Over the past year, Class A malls, lifestyle centers, and outlets have outperformed most other formats.

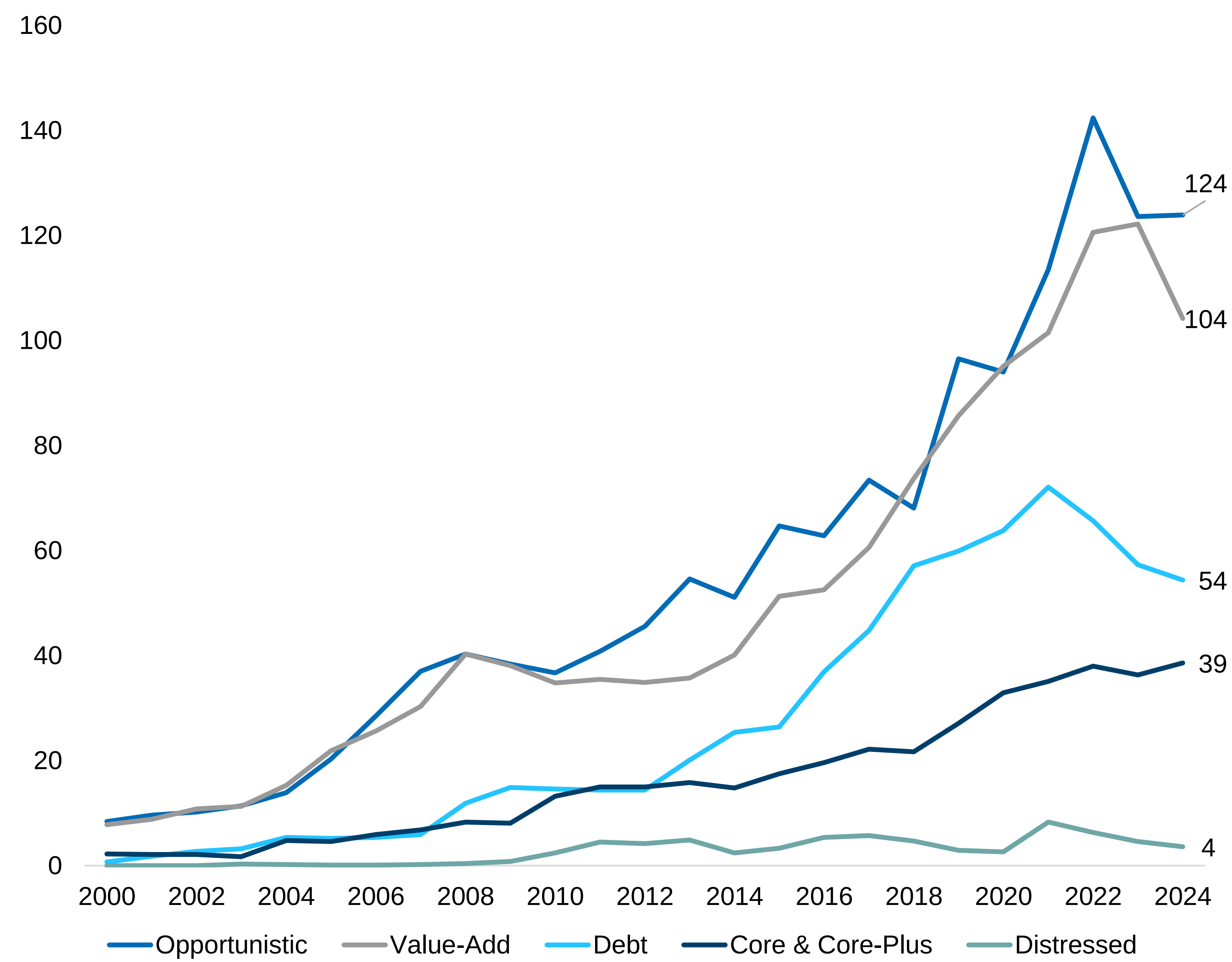
Private Equity Dry Powder Down From 2022 Peak, But Remains Elevated

Dry powder at closed-end funds is 13% below its December 2022 peak, driven by declines in value-add, opportunistic, and debt funds. Core and value-add dry powder has held relatively steady, while distressed and opportunistic strategies have seen notable reductions—though unrealized values in those segments have risen 6% over the past two years.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



Source: Newmark Research, Preqin as of 4/29/2025

*Not shown: Fund of funds, co-investments, and secondaries strategies

Even Retail Owners/Investors Could Feel Tariff Impacts

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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