



COSTAR INSIGHT

Demand for Retail Space Hits Record High in the US

Freestanding and Local Properties Drive Gains as Underperforming Malls Lose More Ground



(Getty)

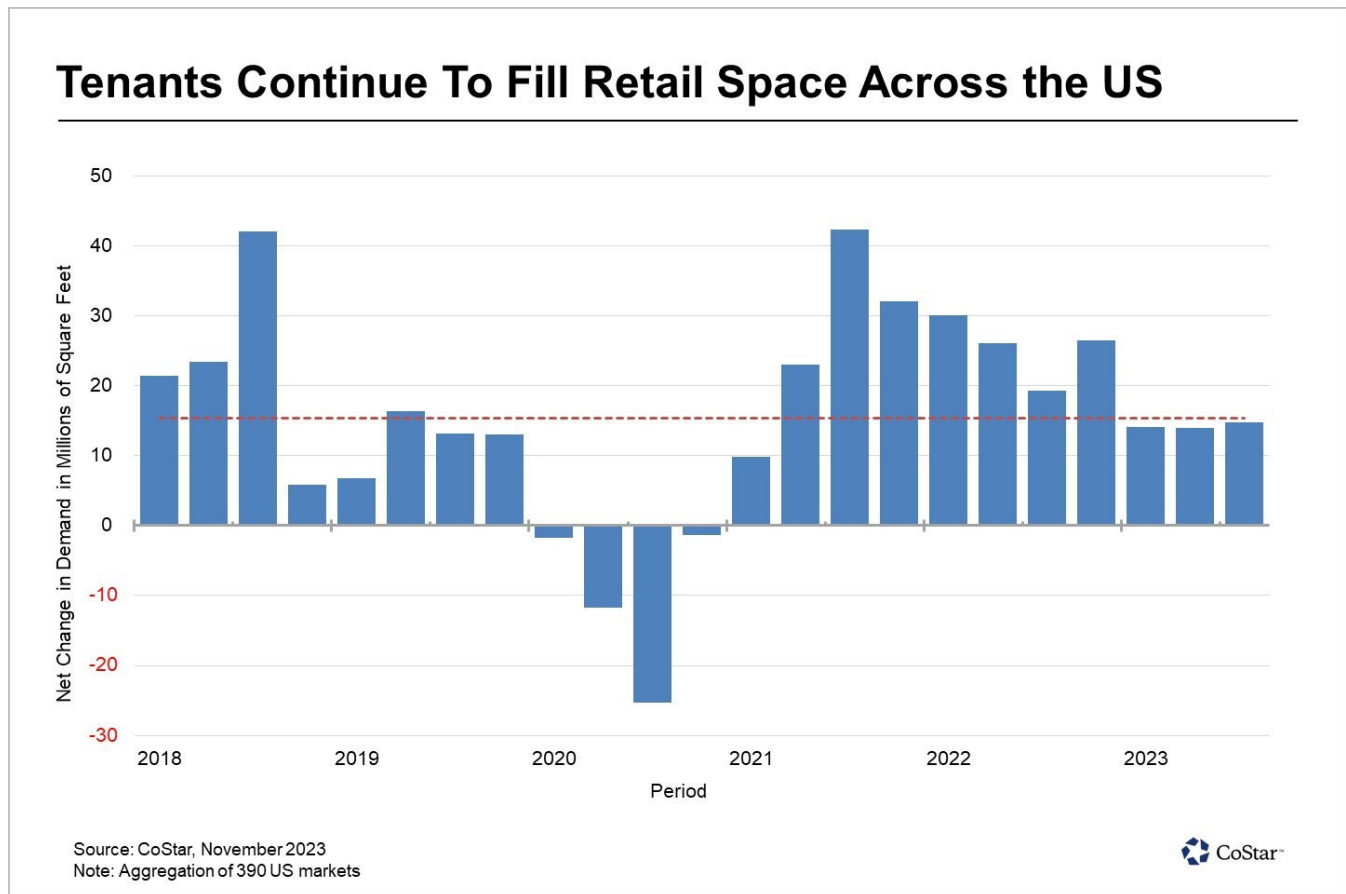
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While rising costs and shifting consumer spending patterns have hurt the bottom lines of many U.S. retailers this year, they kept their physical expansion going into the third

quarter as the amount of retail space occupied across the country climbed to a historical high.

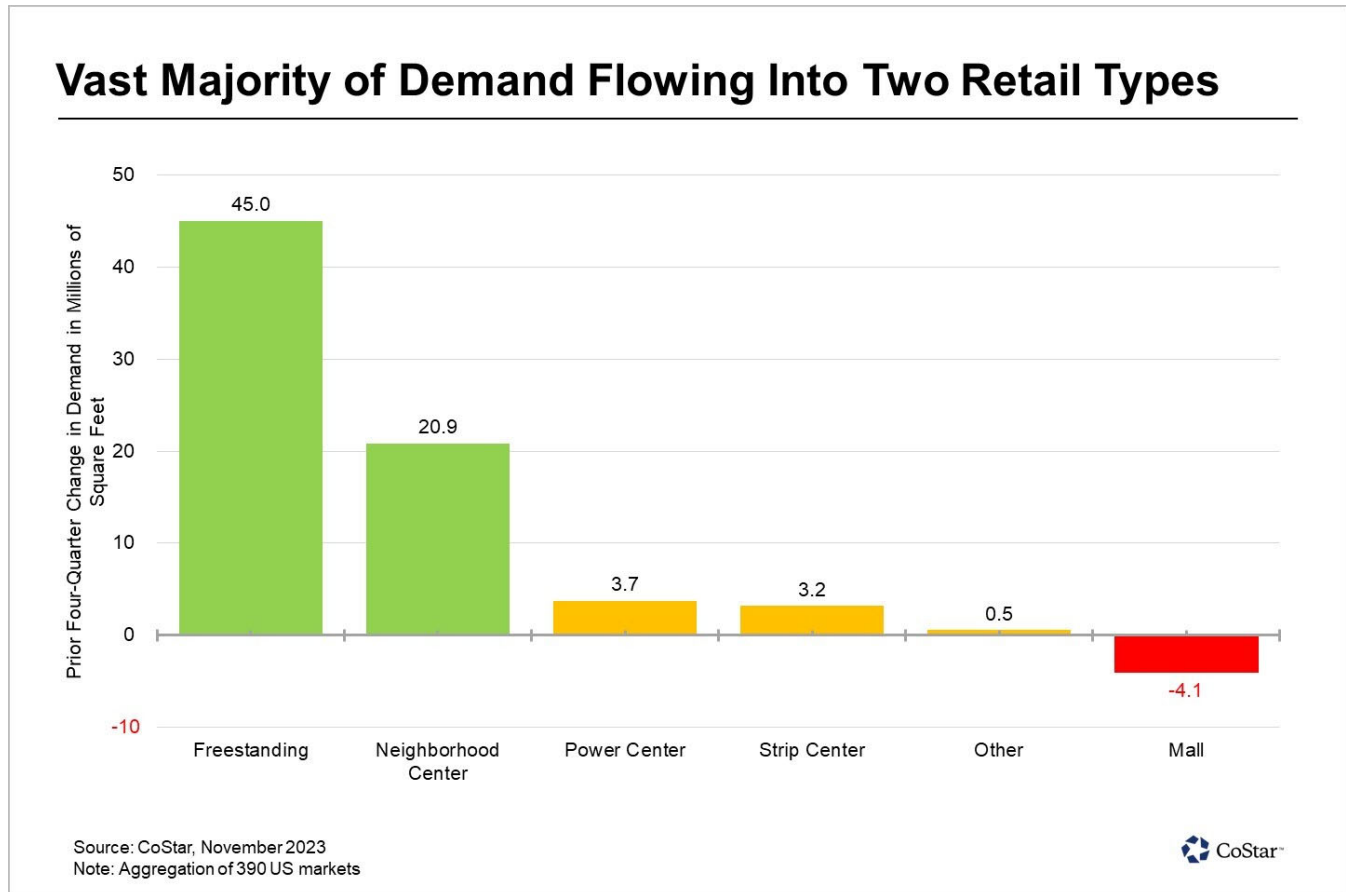
In total, demand for retail space rose by just under 15 million square feet in the third quarter of 2023, marking the 11th consecutive quarter that tenants filled more retail space than they vacated. With slightly more than 14 million square feet of net new retail space opening in the same time, the amount of vacant retail space in the U.S. fell to the lowest level seen since before the Great Recession.



Numerous sectors continue driving the growth in demand for retail space, including food and beverage, fitness, experiential, discount, health and beauty and medical services. Each of these expanding sectors has benefited from the pivot in consumer spending toward value, wellness and experiences.

While retail space market fundamentals are strong, more than a decade of minimal construction combined with persistent demand growth has led to a lack of institutional-quality space across many primary and even secondary corridors across the United

States. As such, numerous retail tenants and tenant representatives have reported a lack of available space in desired locations as a factor weighing on the pace of demand growth, which has notably downshifted to more sustainable levels over the past year.



Even with this downshift, however, retail demand has risen by more than 69 million square feet over the past four quarters. Moreover, given a preference among retailers for [efficient spaces closer to the consumer](#), most of this demand has flowed into freestanding or neighborhood retail properties. In total, these two retail property types accounted for 95% of all retail demand growth over the past year.

On the other end of the spectrum, demand for space within the mall segment fell by more than 4 million square feet over the past year. The mall segment remains highly divided and moving in opposite directions. Malls rated three-stars and below continue to lose tenants, while luxury outlets and top-rated four- and five-star malls have largely increased occupancy over the past year.

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Total demand for retail space in malls rated as three-star and below malls has fallen by more than 45 million square feet since 2017 and is projected to fall further in 2024 as numerous tenants such as Foot Locker and Bath and Body Works accelerate their announced plans to relocate stores out of under-performing malls and into better trafficked, smaller centers.