

2024 RETAIL MARKET UPDATE

2024 is poised to see continued strength in the U.S. retail real estate sector, largely driven by persistent constraints on new construction activity in recent years. Forecasts suggest that retail fundamentals will remain robust, with the availability rate anticipated to decline by 20 basis points, ending the year at 4.6%. While asking rent growth may start modestly, it is projected to exceed 2% by the fourth quarter, emphasizing the burgeoning demand for open-air suburban retail centers.

High construction costs in 2023 acted as a deterrent for new development, ensuring a limited supply of new retail spaces in 2024. The elevated cost of construction, which saw a notable 6.5% increase in 2023, continues to exert pressure, with further albeit slower increases anticipated in 2024. Consequently, only select markets with sufficiently high asking rents can justify new construction initiatives.

Consumer spending is expected to face some challenges in the year ahead, including housing affordability, rising interest rates, and the resumption of student loan payments. These factors are likely to temper discretionary spending somewhat, with forecasts indicating a moderation in retail sales growth to around 2.6% in 2024.

Regarding retail space absorption, a slight decline is expected in 2024 compared to the previous year, with net absorption projected to reach 28 million square feet, down from 35 million square feet in 2023. However, despite this decrease, the retail availability rate is anticipated to hit a record low of 4.6%, primarily due to the scarcity of new supply. Luxury brands are expanding their horizons beyond traditional high-street districts, turning their attention to resort markets and previously underserved areas such as Las Vegas, Honolulu, and Texas markets like Dallas and Houston.

Among the markets to watch, Orlando stands out, leading all U.S. markets in net absorption as of the third quarter of 2023, with its retail availability rate dropping to just 3.5%. This data paints a picture of resilience and opportunity within the U.S. retail real estate landscape as we progress through 2024.