

2Q25

U.S. Retail Market: Conditions & Trends

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Access the Extended 2Q25 U.S. Retail Market: Conditions & Trends Report



To access, please reach out to Brandon.Isner@nmrk.com or your Newmark contact.

The extended version of this report includes:

- **Up-to-Date Narrative on Tariff Policy:** Commentary is provided on how the ever-changing tariff situation is affecting consumers, occupiers, and investors.
- **How the Retail CRE Industry has Balanced Supply and Demand:** The retail sector is insulated from short-term disruption due to decades of property cultivated supply.
- **Retail Space Productivity:** Sales per square feet have soared, suggesting there's more room for growth in asking rents.
- **Retail CRE Detail by Format and Age:** A case could be made that retail needs more new supply than ever, as newer space vastly outperforms older space.

Extensive content across 40 slides—a detailed presentation packed with useful retail information and in-depth analysis.

Market Observations



Economic Conditions & Retail Demand Drivers

- Consumer sentiment rose in June. Still, overall sentiment remains tempered by future expectations, which have declined 17% since June 2024.
- Wage growth has slowed but continues to outpace inflation by more than 140 basis points. Inflation has eased. Retail sales growth has moderated as consumers remain cautious amid ongoing economic uncertainty.
- Imports are expected to rise in July, according to the Global Port Tracker via NRF, as retailers prepare for the 2025 Holiday Season. However, volumes are projected to fall below trend in later months—signaling a potential shortfall in goods.



Capital Markets

- Retail investment sale volume in 2Q25 rose 22% year-over-year, keeping the 12-month rolling volume up 4% year-over-year. Pricing and cap rates remain relatively stable. The uptick in \$100 million-plus individual property sales signals growing interest, which could drive higher volume by year-end 2025 and into 2026.
- Retail values continue to rise in 2025, posting positive gains month-over-month, over the past three months and year-over-year, the only property type to show growth across all three timeframes.



Leasing Market Fundamentals

- Net absorption was negative in 2Q25, indicating that 2025 may echo 2020, the last year to record consecutive quarters of negative net absorption. As retailers close underperforming locations and others restructure through bankruptcy, 2025 is emerging as a transitional period for retail assets.
- Despite these shifts, overall retail fundamentals remain largely intact. The availability rate rose 10 basis points to 5.3% but remains well below the long-term average of 6.6%. Asking rents recorded their first year-over-year decline as subprime space enters the market.
- Retail space continues to perform strongly, with sales per SF up 4.2% year-over-year and 45% above 2019 levels.



Outlook

- Net absorption is expected to remain negative through year-end 2025, as retailers continue to recalibrate store footprints for greater efficiency, often by closing locations in subprime areas.
- Asking rents are projected to grow 1.9% in 2025, with a modest deceleration to 1.8% in 2026 under the base case. In a moderate downside scenario, rent growth will remain slow through 2025 and 2026, decline in 2027, and return to growth in 2028.

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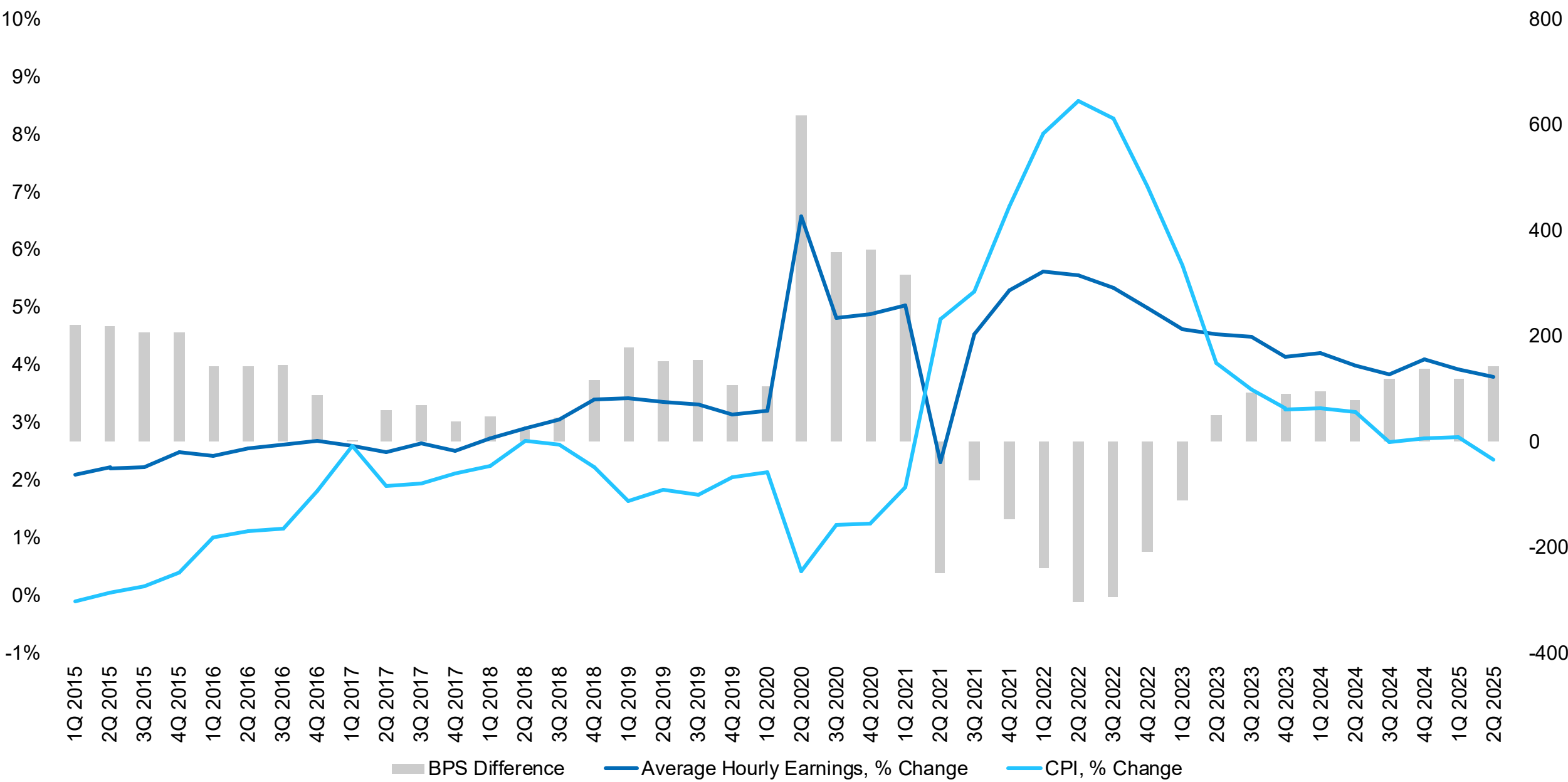
Economic Conditions & Demand Drivers



Wage Growth Increasing Spread CPI Growth

Wage growth has outpaced inflation for nine consecutive quarters, with the gap continuing to widen. The current 142-basis-point spread is the largest since 1Q21.

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

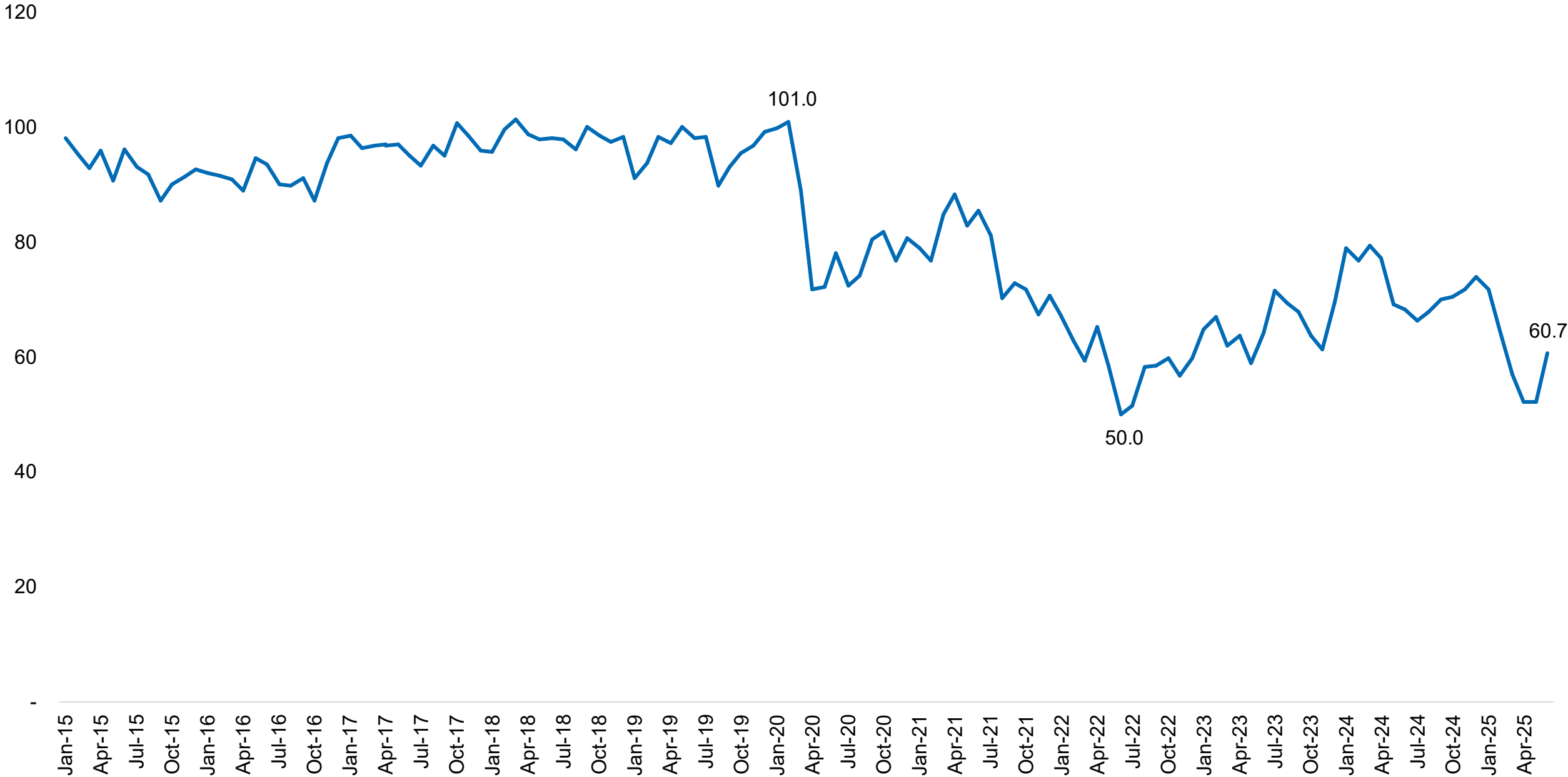


Based on the Consumer Price Index for All Urban Consumers: All Items, and the Average Hourly Earnings of All Private Employees CPI for 2Q 2025 is based on an average of year-over-year growth for April and May.
Source: U.S. Bureau of Labor Statistics, July 2025.

Despite Tariff Uncertainty, Consumer Sentiment Improves in June

Consumer sentiment finally improved, breaking a downward trend that had persisted since the start of 2025. However, overall sentiment remains down approximately 11% compared to June 2024. The primary drag continues to be the expected conditions index, reflecting respondents' outlook on their financial situation over the next 12 months, which is down nearly 17% year-over-year.

Consumer Confidence Index – Current Economic Conditions

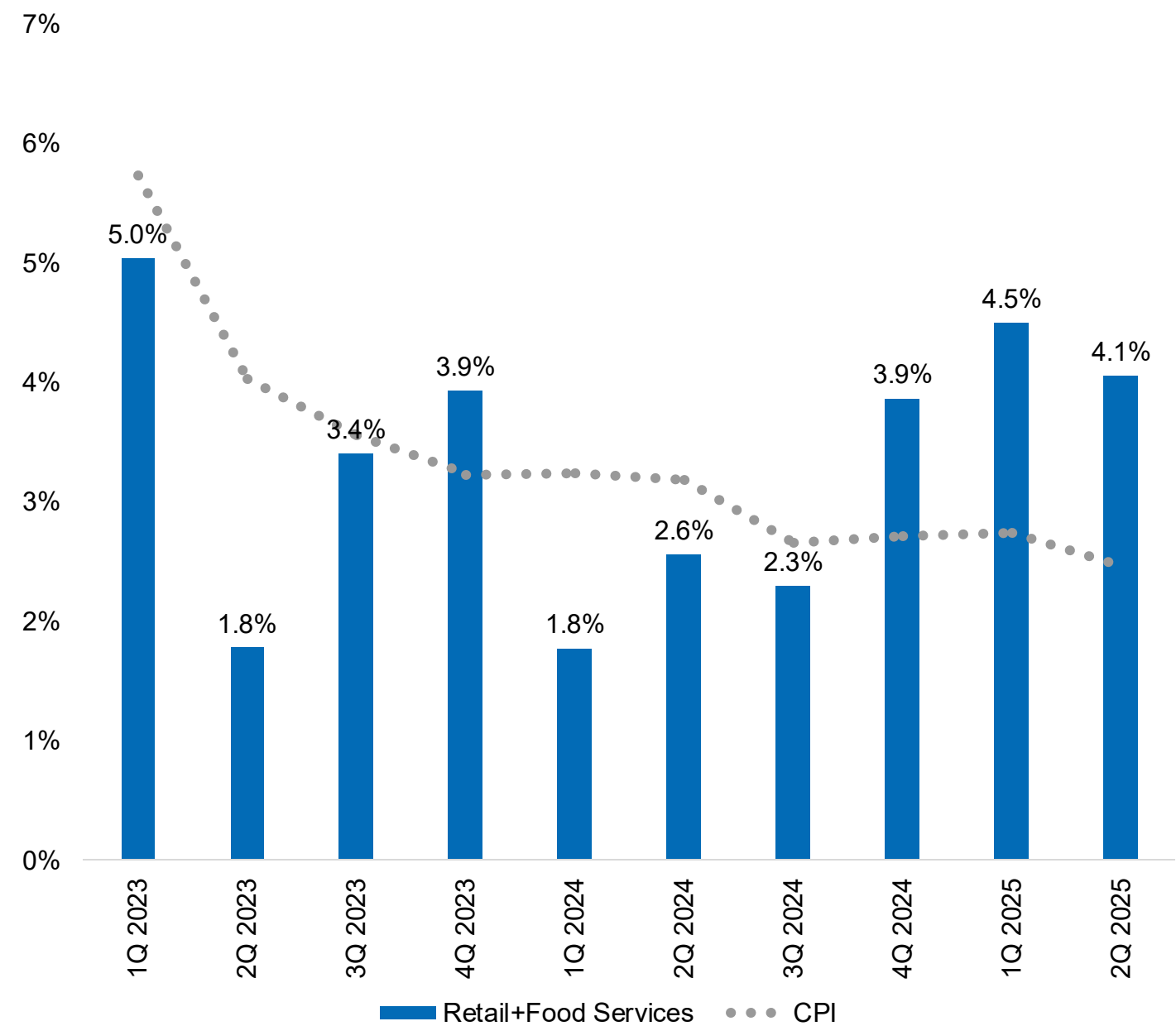


Source: University of Michigan, July 2025.

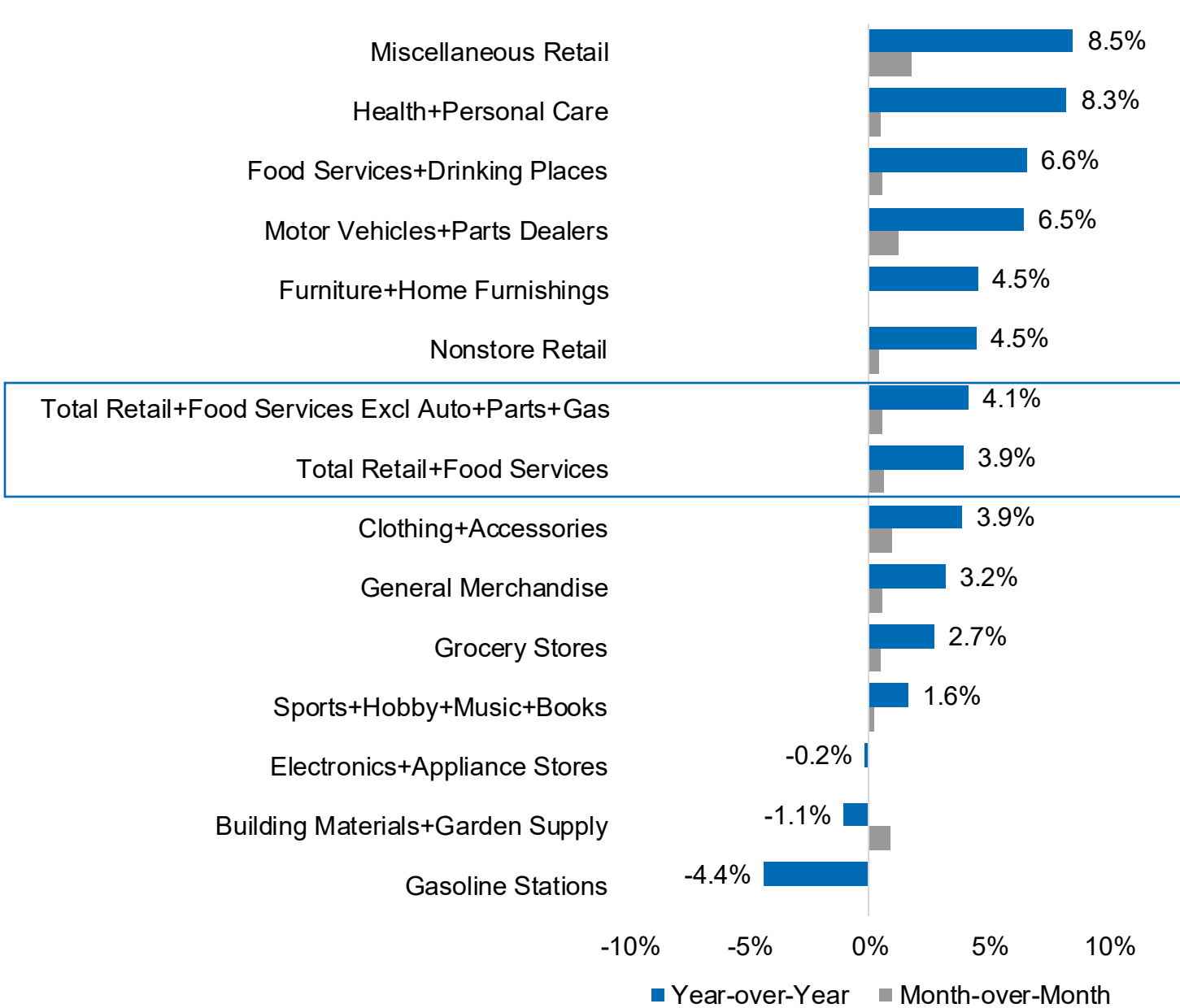
Retail Sales Continue to Surprise Analysts

On a month-over-month basis, total retail and food services sales rose 0.6% in June and are up 4.1% year-over-year. The monthly gain exceeded the Bloomberg analyst forecast by 50 basis points, highlighting how retail continues to outperform expectations. Year-over-year gains in retail sales over the past three quarters have also outpaced CPI growth. Categories such as miscellaneous retail and health and personal care remain strong. Gasoline stations continue to show year-over-year declines, largely driven by price deflation.

U.S. Retail and Food Services and CPI, in % Change Year-over-Year



U.S. Retail and Food Services by Category, in % Change



Source: University of Michigan, July 2025.

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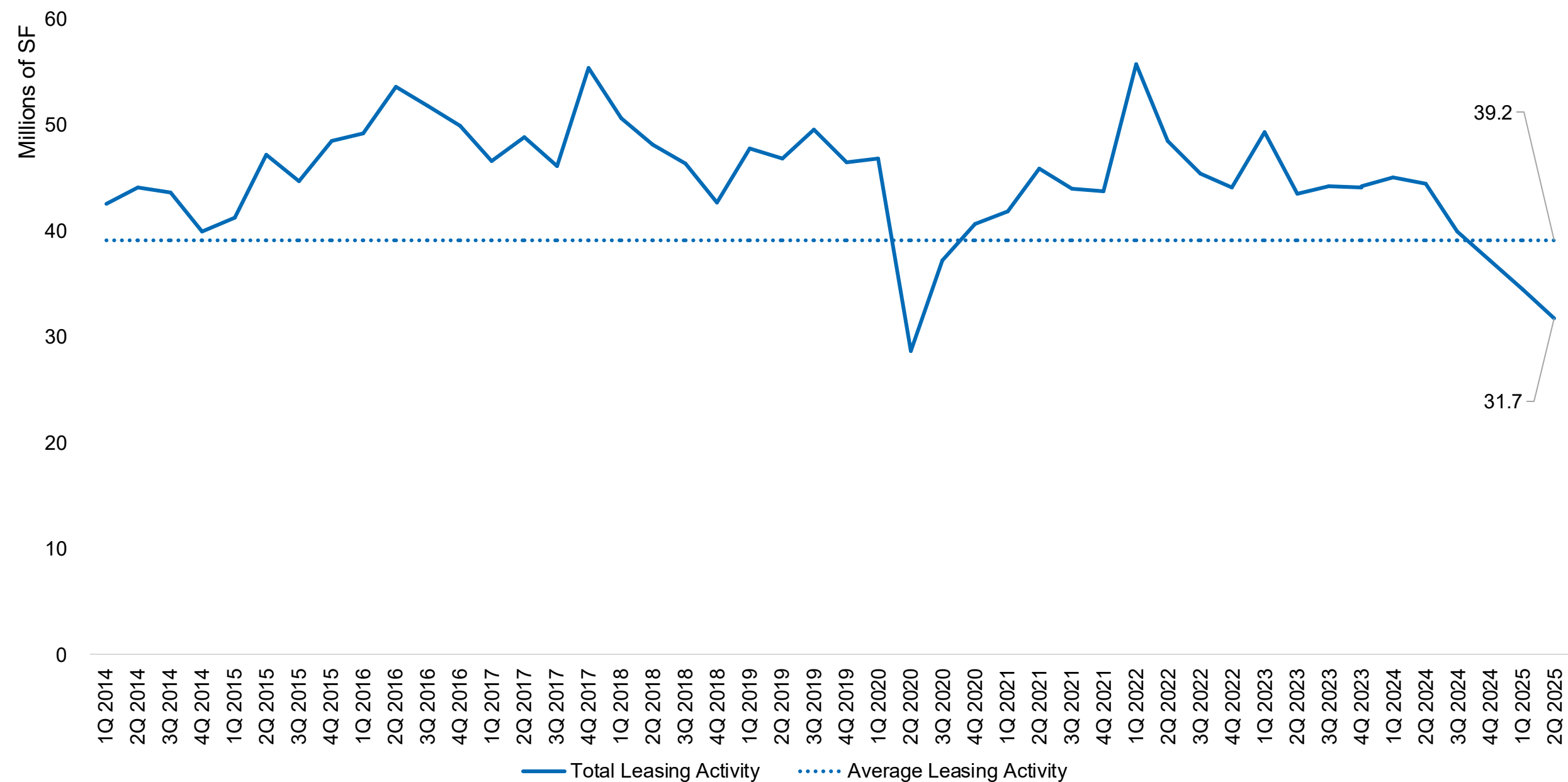
Leasing Market Fundamentals



Retail Volume Continues to Decline as Scarcity of Prime Space Remains

2Q 2025 retail leasing volume fell to 31.7 million SF, marking a year-over-year decline of nearly 29% and sitting approximately 23% below the long-term average. Contributing factors may include a shrinking supply of prime retail space suited to an evolving industry, as well as tariff uncertainty prompting some retailers to pause expansion plans. Conversely, some value-oriented retailers are viewing the uncertainty as an opportunity to grow.

Quarterly Leasing Activity vs. Ten Year Average for Retail CRE

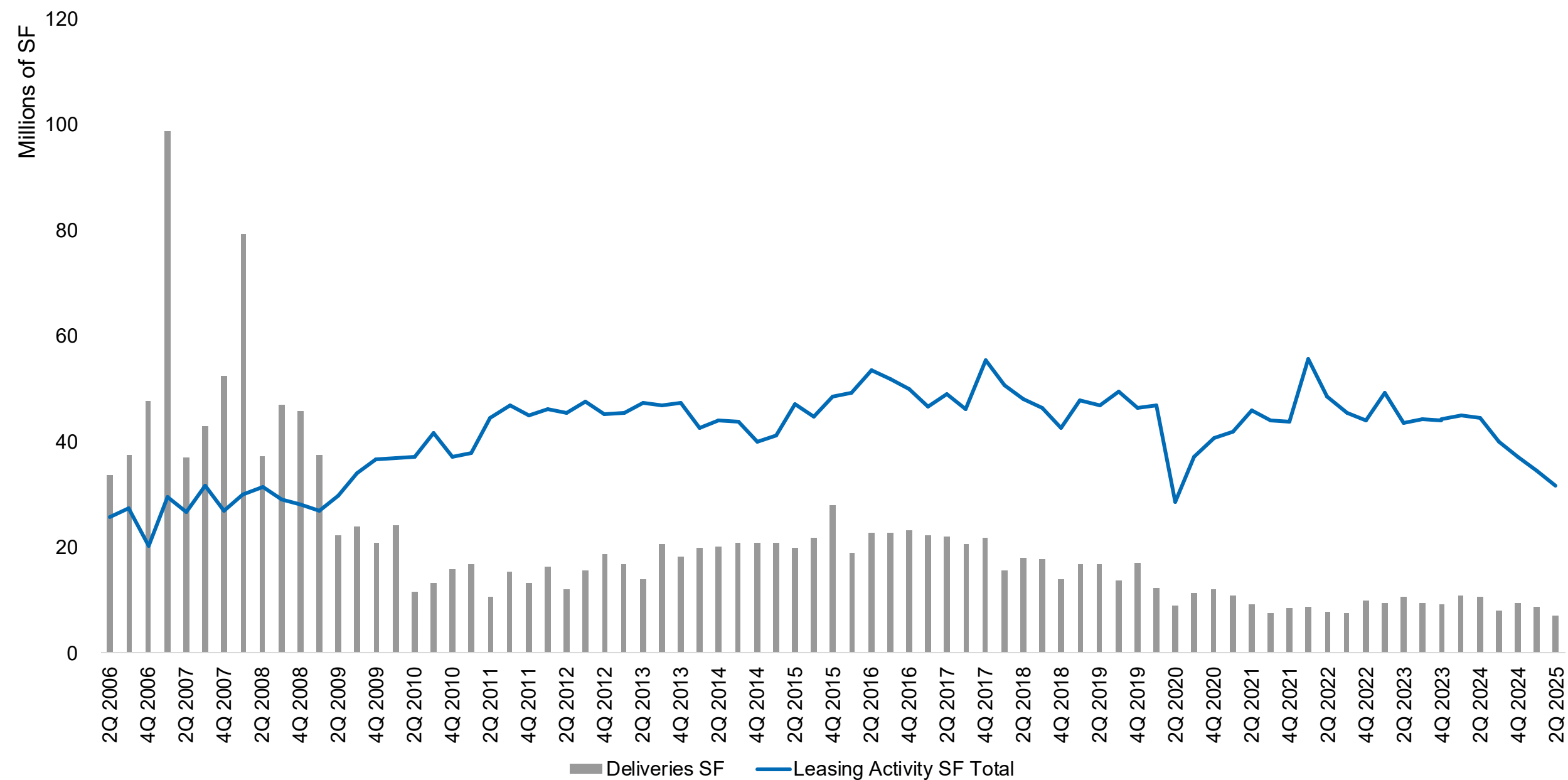


Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 2Q 2025.

Deliveries Remain Low, Keeping Retail Fundamentals in Balance

Even as retail lease volume declines, deliveries of new retail space totaled just 6.98 million SF in 2Q 2025, a new low dating back to at least 2000. This sustained trend of limited new development has helped cushion fundamentals from the impact of reduced leasing demand. With fewer than 10 million SF in the development pipeline, leasing volume is expected to continue outpacing completions well into the future.

Quarterly Leasing Activity vs. Ten Year Average for Retail CRE

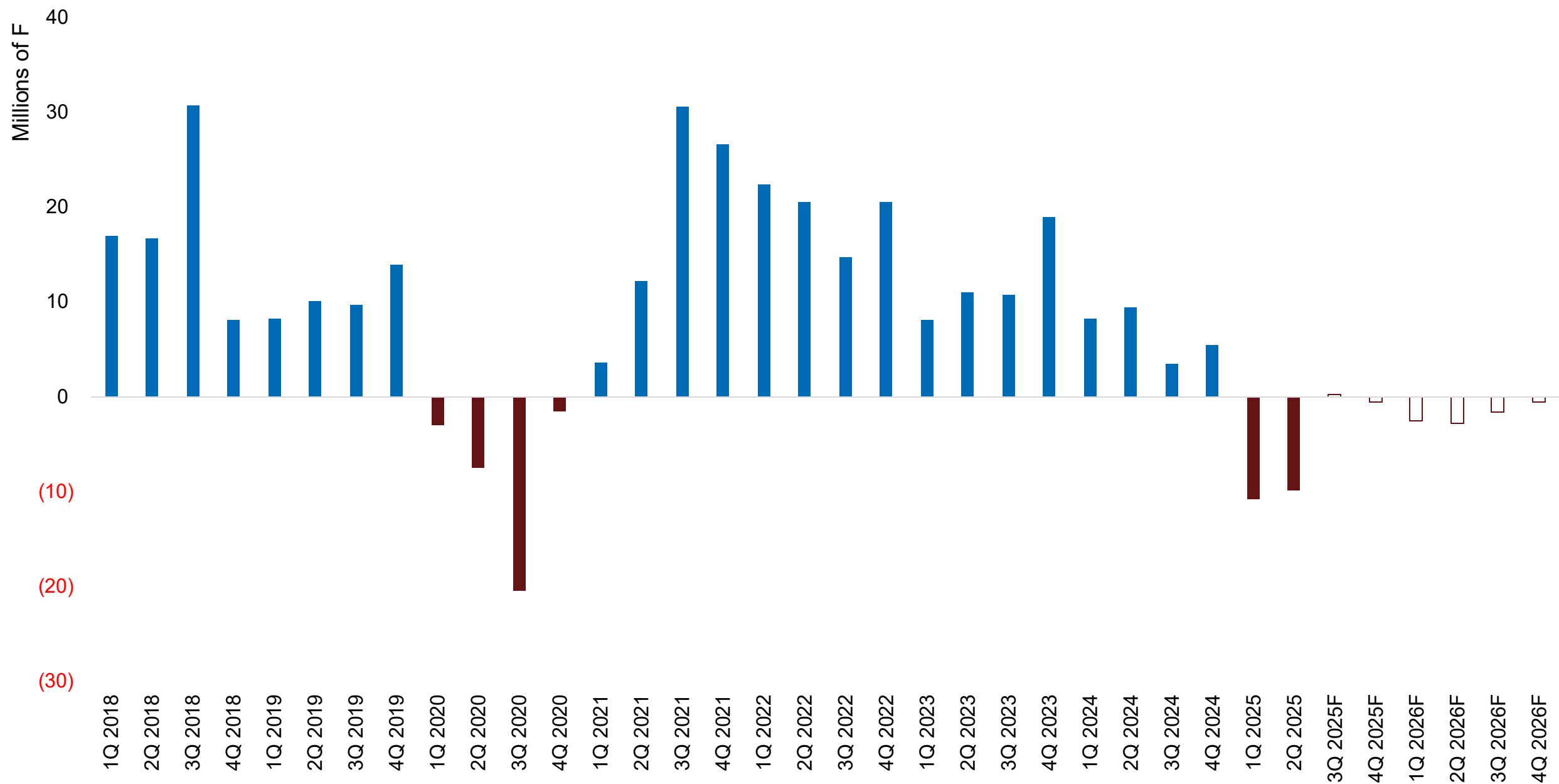


Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 2Q 2025.

Net Absorption is Negative For Second Consecutive Quarter

As expected, net absorption for U.S. retail assets was negative in 2Q25, as store closures outpaced leasing activity. In addition to high-profile bankruptcies such as Joann, Rite Aid and Forever 21, retail centers are navigating tenant strategies that include trimming store fleets, targeting underperforming locations or those misaligned with evolving supply chain priorities. Looking ahead, absorption is expected to remain negative through year-end 2025 and into 2026.

Retail Net Absorption by Quarter

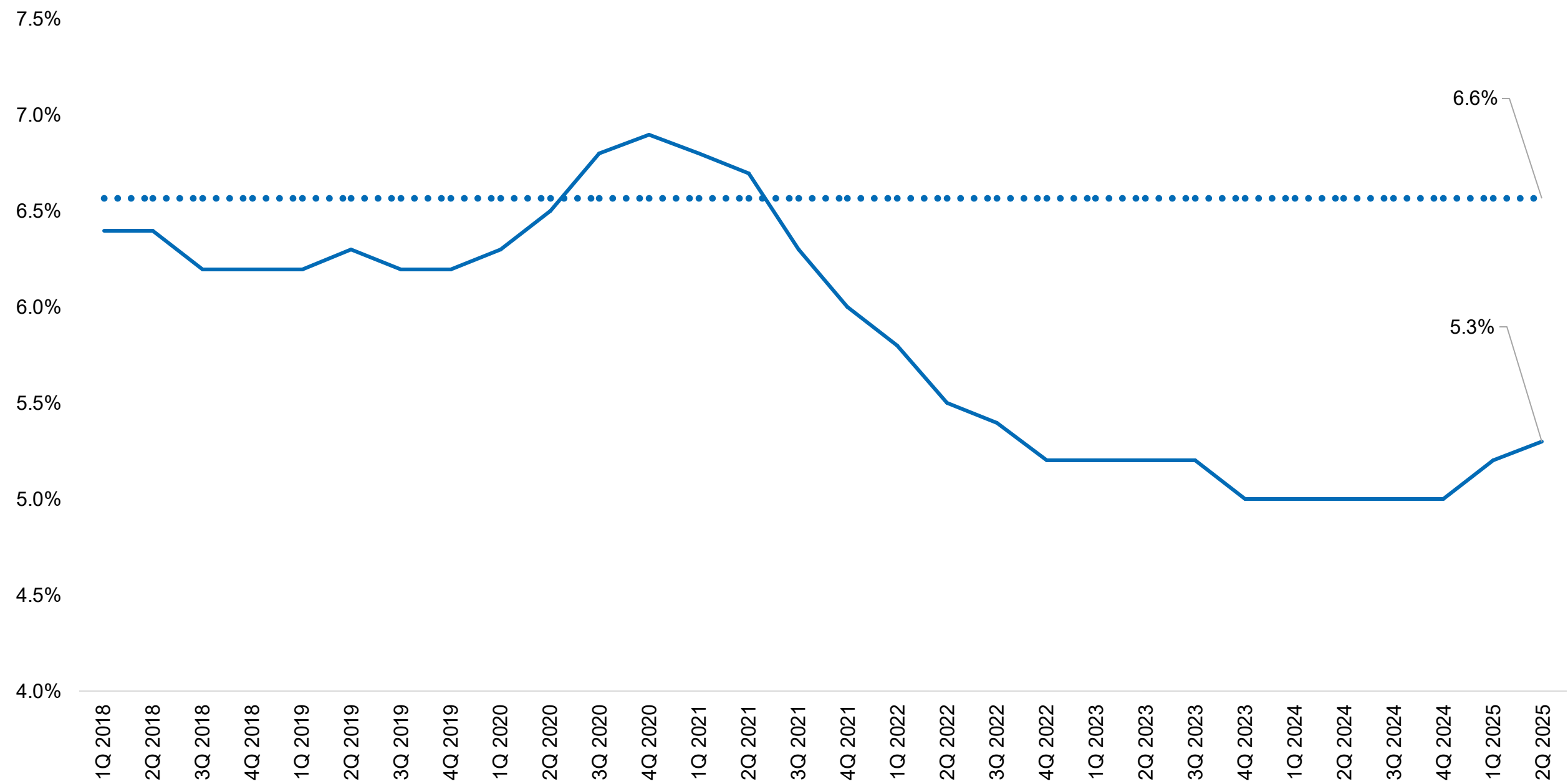


Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 2Q 2025.

Retail Availability Ticks up Again, Yet Remains Significantly Below Average

Retail availability rose to 5.3%, up 10 basis points quarter-over-quarter and 30 basis points year-over-year. Despite the increase, the availability rate remains well below the long-term average of 6.6%.

Historical Availability for Retail CRE, All Formats



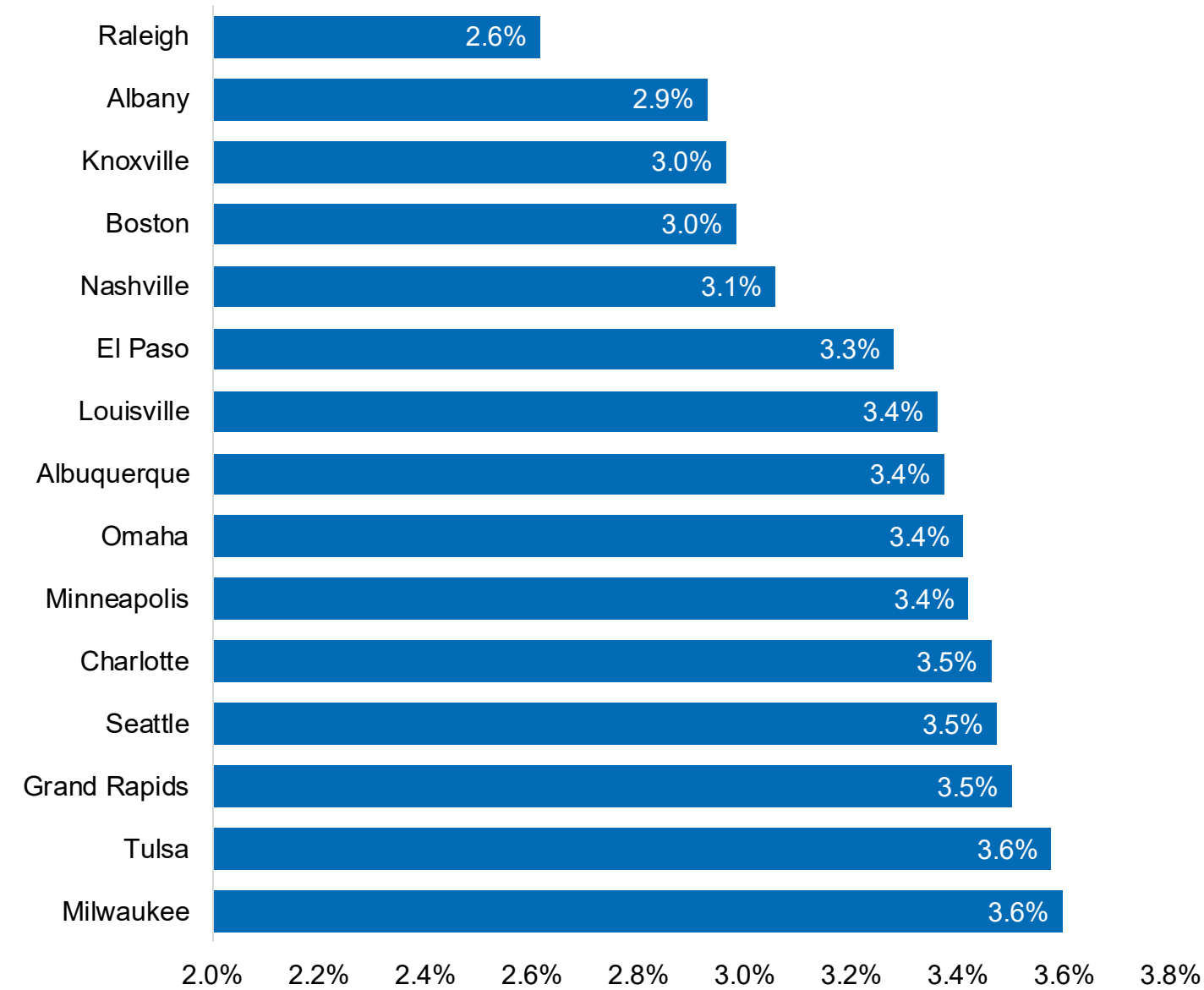
Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 2Q 2025.

Retail fundamentals, which remained stable throughout the pandemic, are expected to stay steady amid tariff uncertainty, as the retail footprint has been pruned by demolitions of underperforming and obsolete space and replaced by a responsible level of new supply.

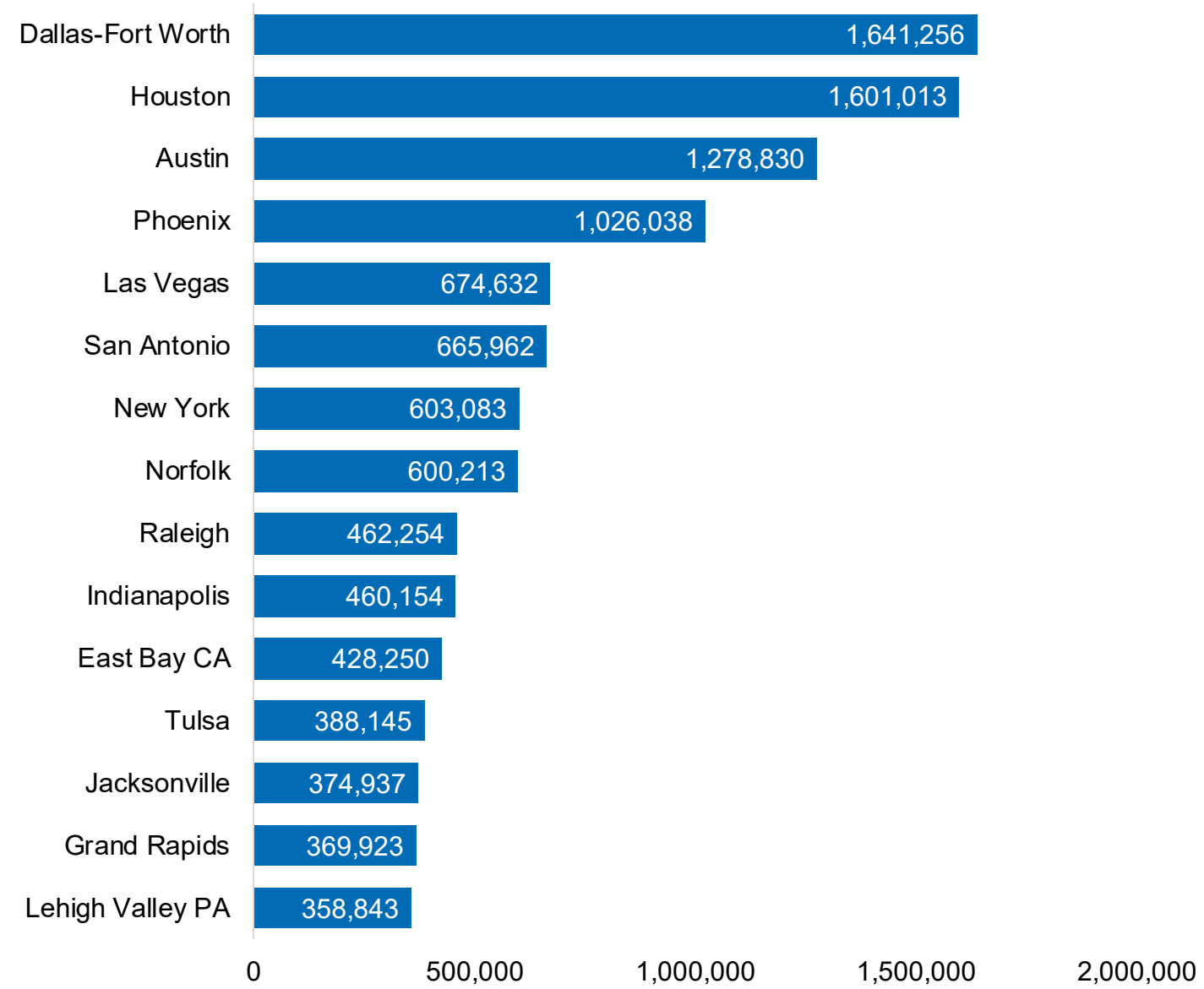
Top 15 U.S. Markets in Retail Availability and 12-Month Absorption Total

Smaller markets such as Raleigh and Albany remain the tightest in availability, with larger markets like Boston, Minneapolis and Seattle also ranking among the top 15. In terms of 12-month absorption totals, Texas stands out with three markets in the top five and San Antonio close behind at number six. Smaller markets including Grand Rapids, Michigan, and the Lehigh Valley in Pennsylvania also secured spots in the top 15.

Top 15 Markets in Availability, 2Q 2025



Top 15 Markets in Net Absorption, 12-Month Total

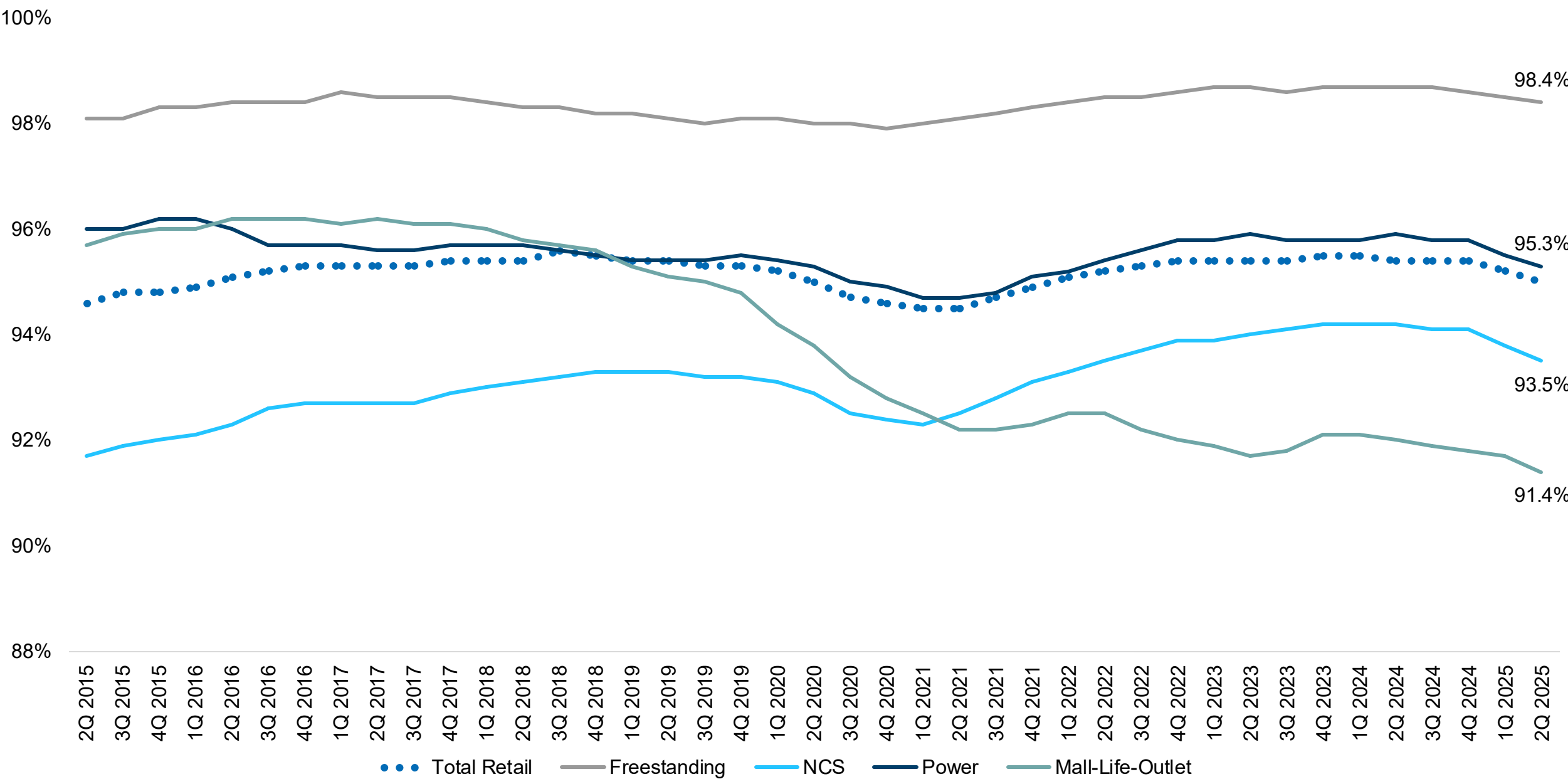


Considers all retail markets with over 50 million sq. ft. of retail inventory.
Source: CoStar, 2Q 2025.

Occupancy Declines Across All Retail Formats

Both freestanding retail and power centers continue to maintain above-average occupancy rates, while neighborhood, community and strip centers trail slightly at 93.5%. The malls, lifestyle centers and outlets segment remains weighed down by subprime mall product, space that is unlikely to recover lost tenants who either relocate to better-managed centers or exit the market entirely.

Historical Occupancy for Retail CRE, by Format

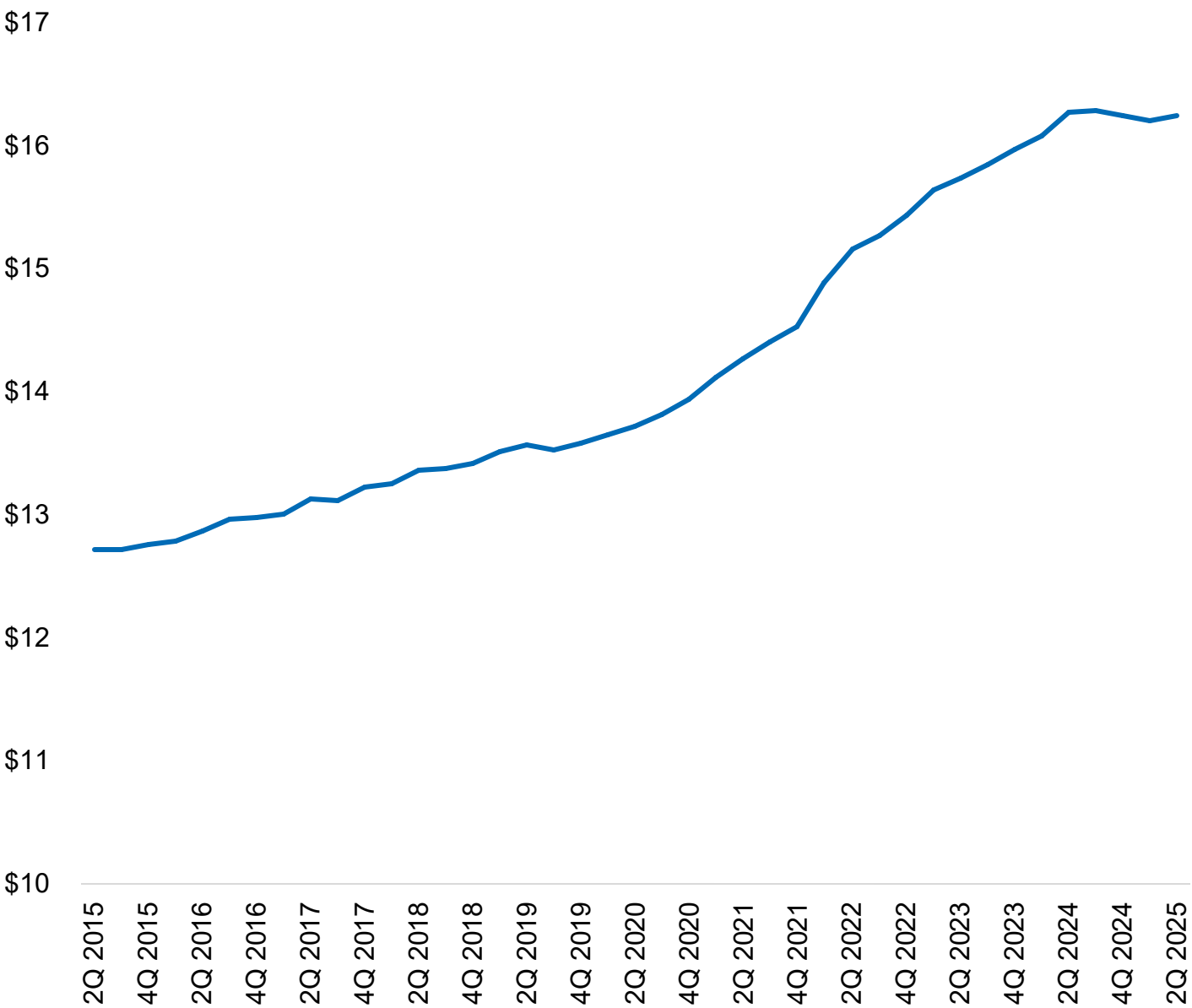


Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 2Q 2025.

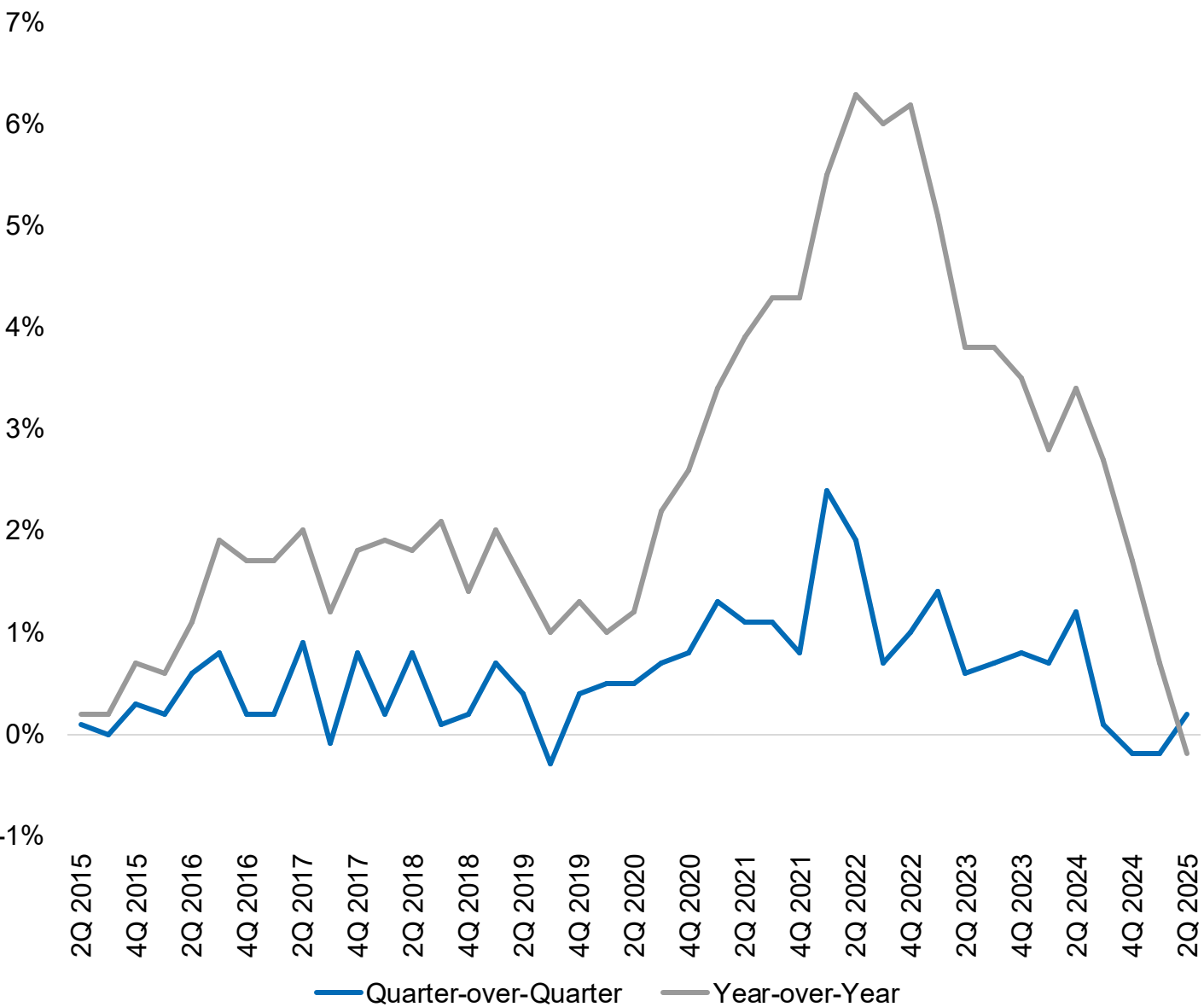
Asking Rents Fall on a Year-over-Year Basis for the First Time in A Decade

Although quarter-over-quarter asking rent growth was slightly positive, year-over-year rents declined. A closer look reveals that asking rents are being anchored by a growing share of subprime space. More than 250 million SF of retail space has been on the market for two years or more—accounting for roughly 45% of total availability.

Asking Retail CRE Direct Rent, \$/SF/NNN



Asking Retail CRE Rent, in % Change



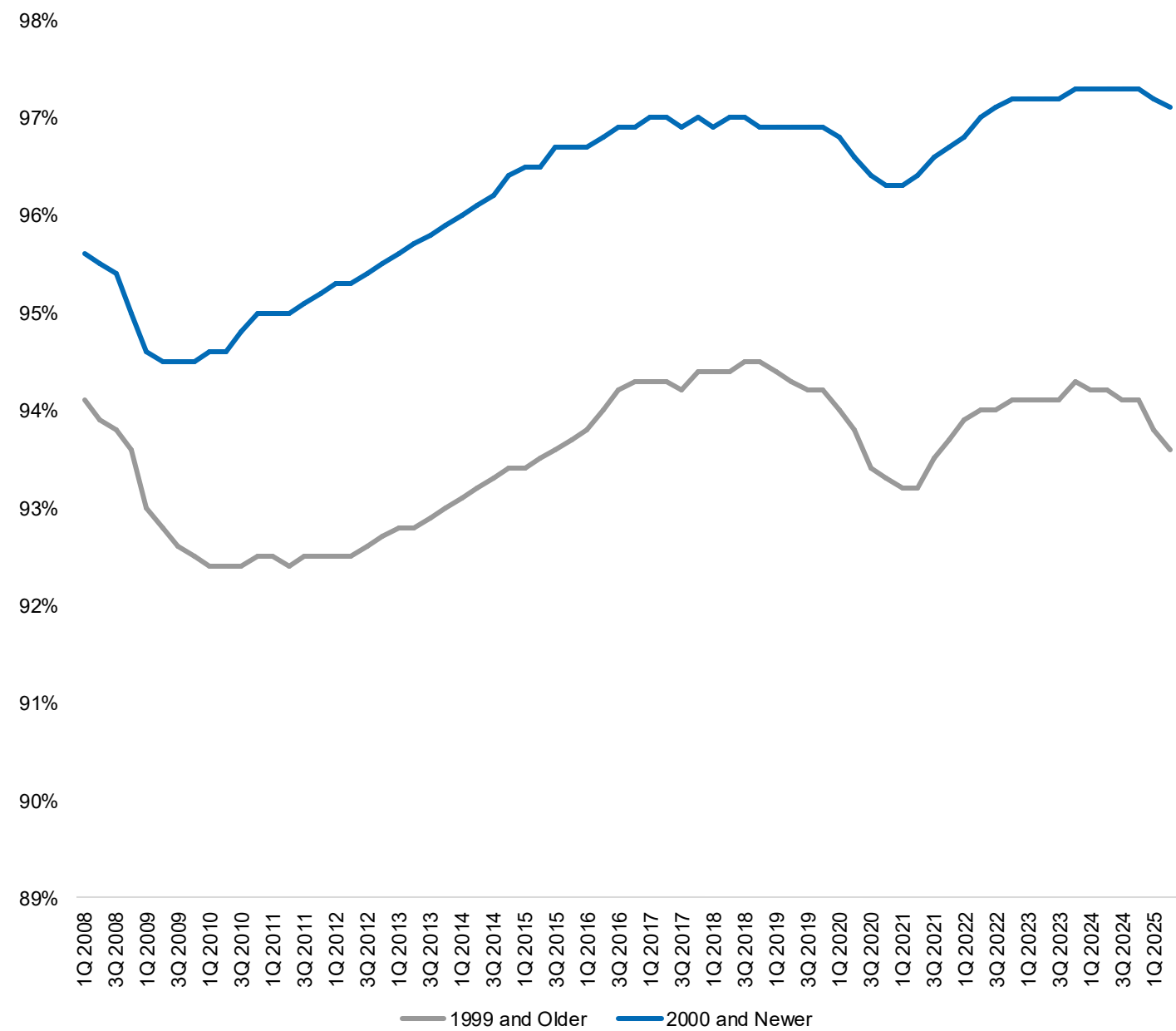
Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 2Q 2025.

The productivity of retail space continues to rise, with sales per SF up 45% compared to 2019, outpacing inflation by more than 20 percentage points. This growth has also exceeded the pace of asking rent increases, suggesting room for further rent growth.

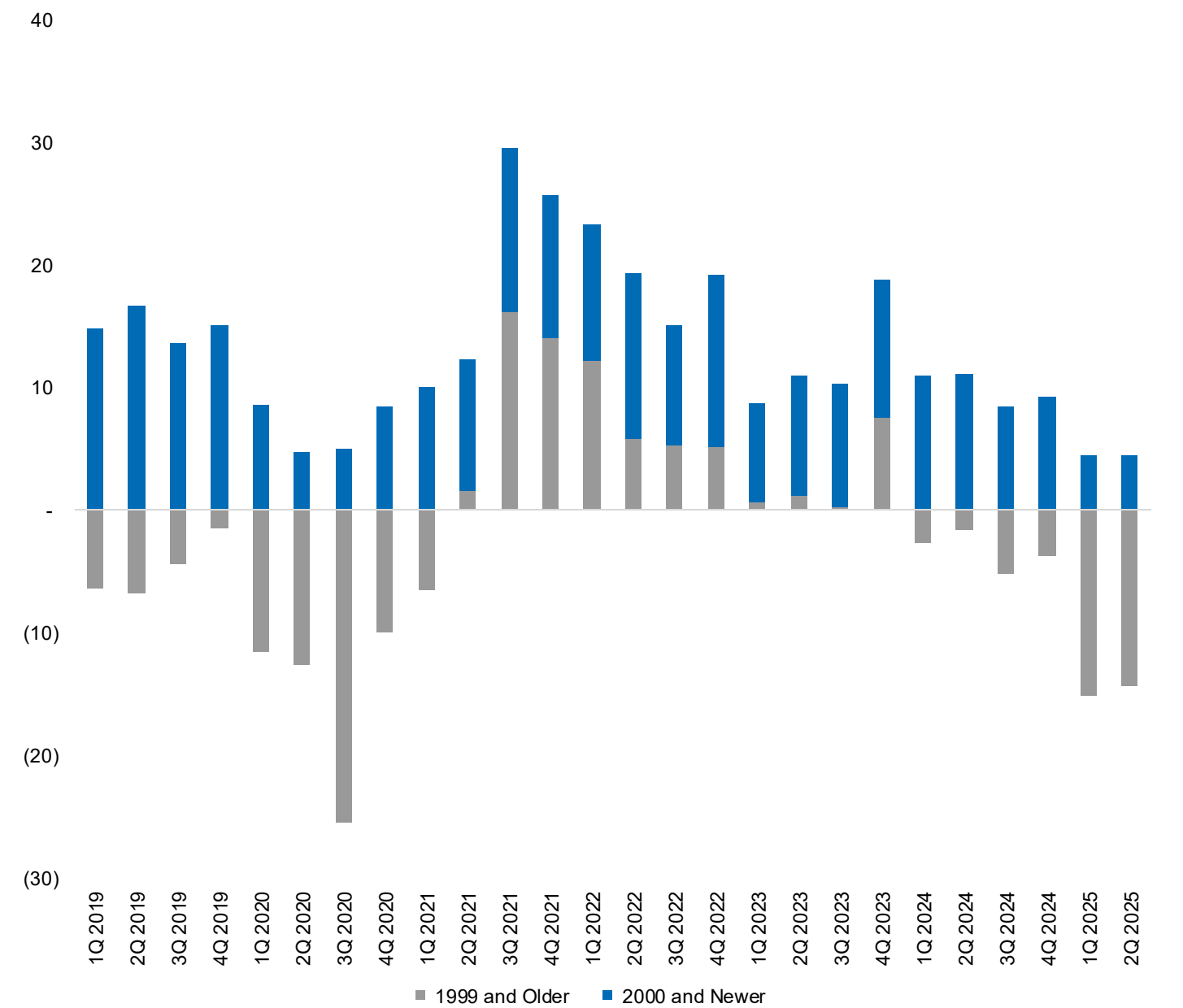
Retail Occupiers Show Clear Preference For Newer Assets

Occupancy for retail assets built before 2000 has declined by more than 50 basis points since 2008, while assets delivered in 2000 or later have seen occupancy rise by 157 basis points. Retail absorption in 2025 would be positive if not for the drag from older properties. With limited new development in the pipeline, this dynamic is likely to persist until older assets are redeveloped, reimagined, or at minimum, demolished.

Occupancy by Age, U.S. Retail Assets



Net Absorption by Age, U.S. Retail Assets, in Millions of Square Feet



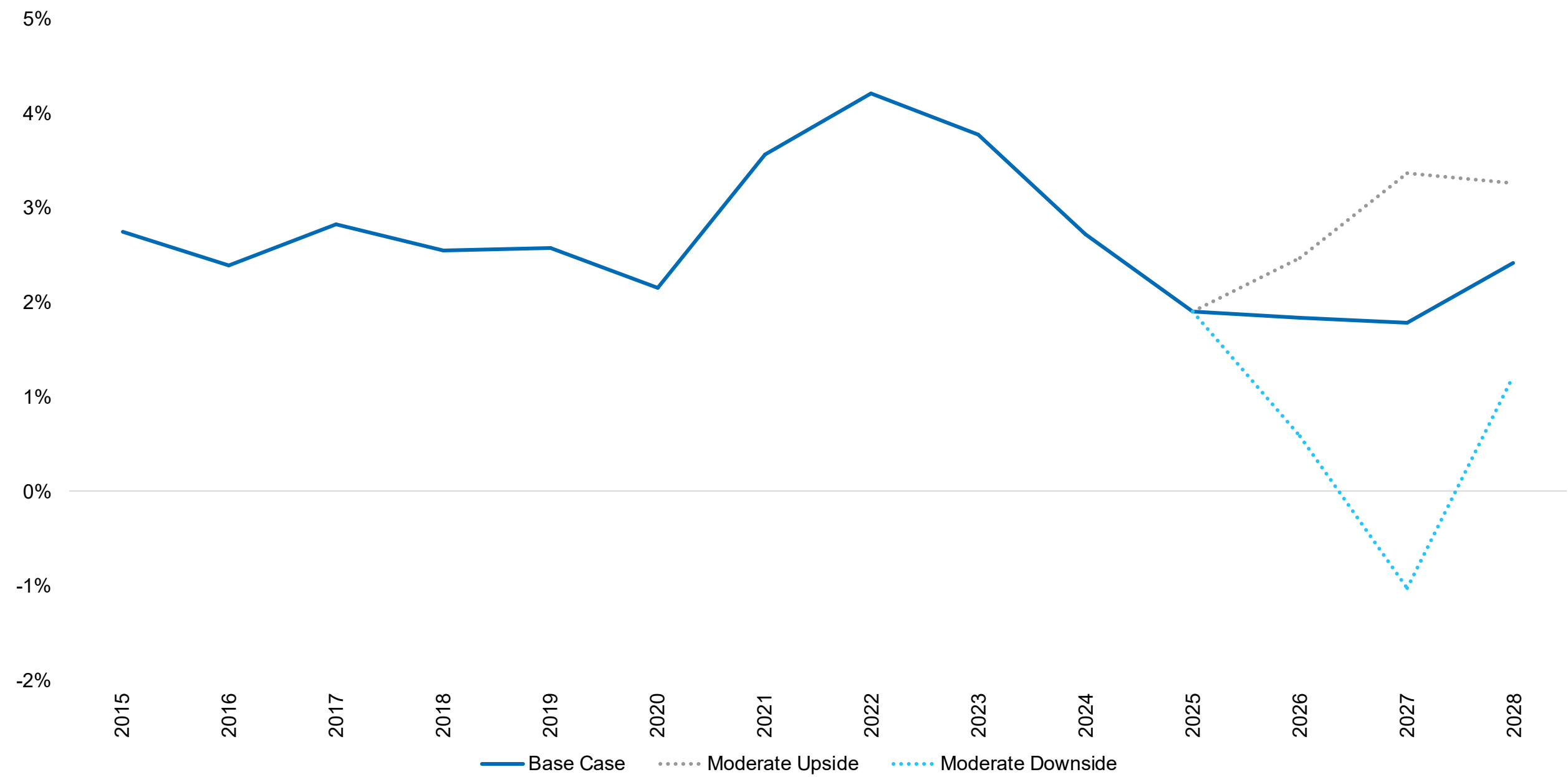
Considers all retail markets with over 50 million sq. ft. of retail inventory.
Source: CoStar, 2Q 2025.

The retail community has been diligent in demolishing older, non-competitive assets. Now, it's time for voices to advocate for new, responsible development and re-development.

Rent Outlook Remains Positive Despite Calming Effect

The outlook for asking retail rents has seen a slight quarter-over-quarter calming. The base case remains unchanged, with rents projected to rise 1.8%. However, the previous outlook for 2027 has softened from a +2.7% gain in 1Q to a repeat gain of +1.8%. The moderate downside scenario has improved, shifting from a projected -1% decline in 2026 to a +0.6% increase, with the decline now expected in 2027. In the moderate upside scenario, rents are forecast to rise 2.5% in 2026 and 3.4% in 2027.

Retail Rent Growth Forecast by Economic Scenario



Source: CoStar, 2Q 2025.

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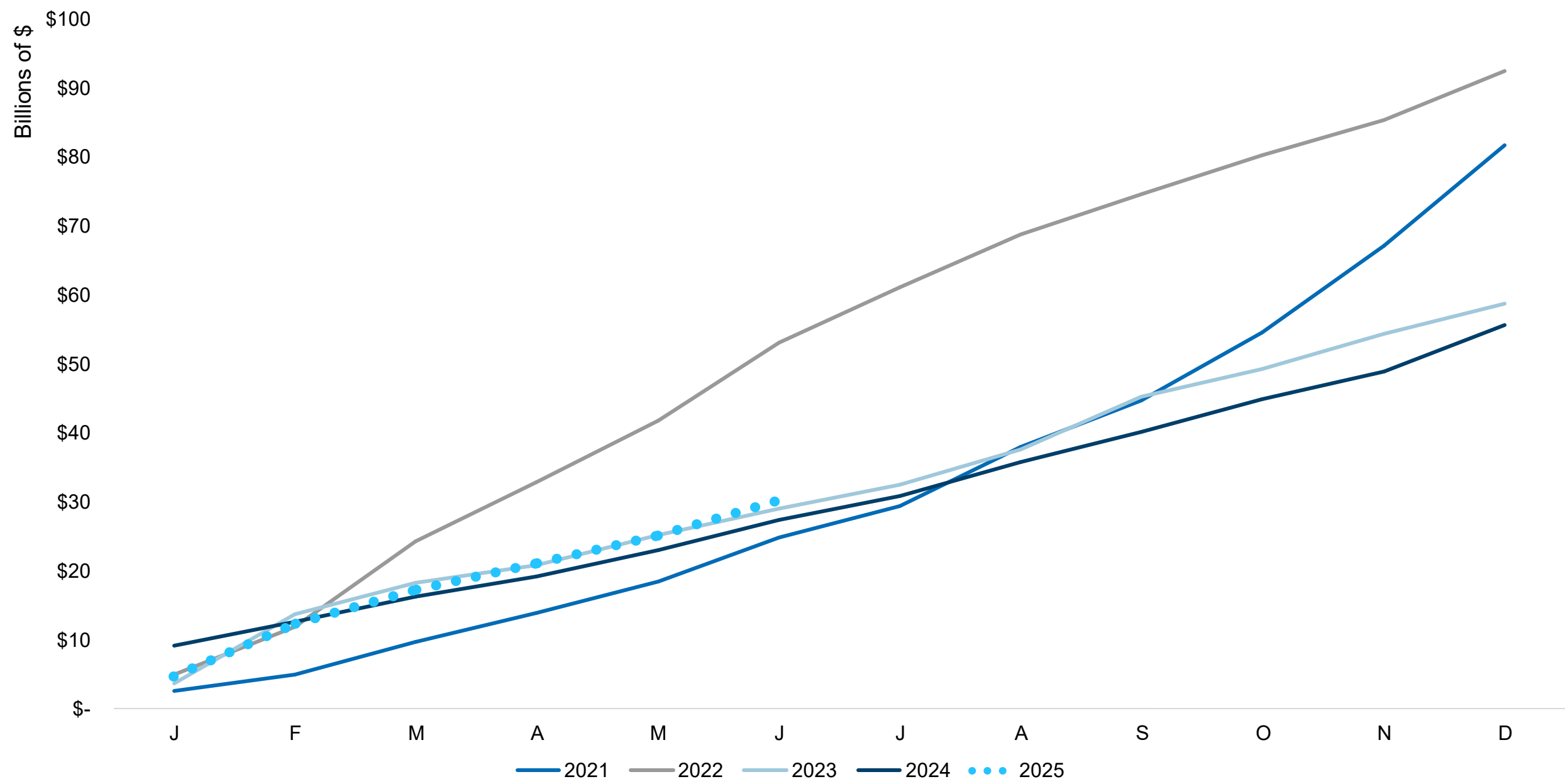
Capital Markets



2025 Retail Investment Volume Ahead of 2023 and 2024

Strong February and June investment sales volumes have positioned 2025 for a solid start compared with previous years. Year-to-date, retail investment sales volume is over 10% higher than the same period in 2024. With more significant, big-ticket retail centers coming to market, the year could also close on a strong note.

Investment Volume for Retail CRE

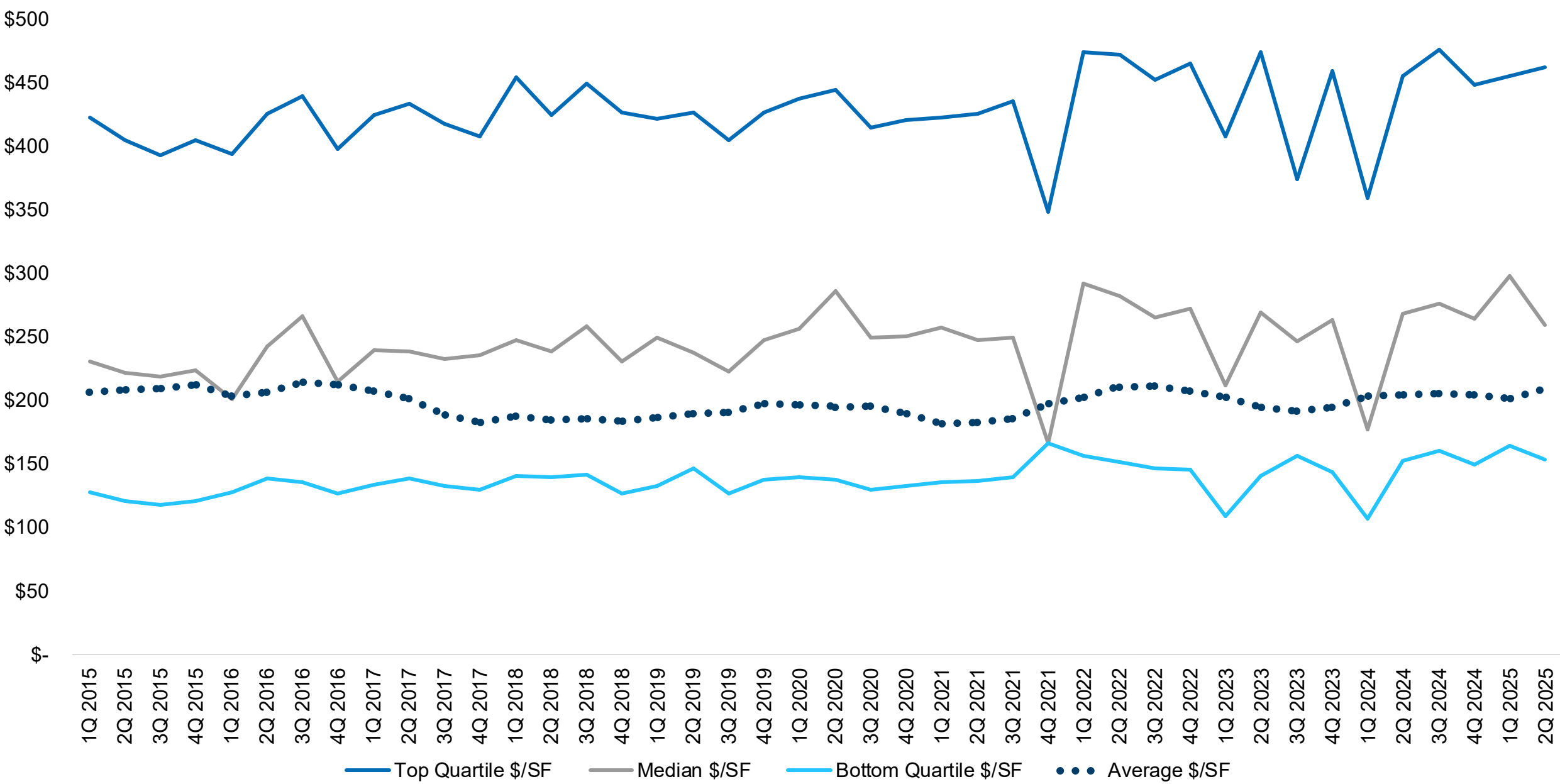


Source: MSCI Real Capital Analytics, July 2025.

Price Per SF For Retail Assets Remains Stable

The average price per SF for retail assets rose 3.9% quarter-over-quarter, bringing it up 2.7% year-over-year. While more prime-level assets have traded, so have lower-tier properties, with the bottom quartile price per SF falling 6.7% quarter-over-quarter, likely driven by Class C mall activity.

Price Per SF for Retail CRE

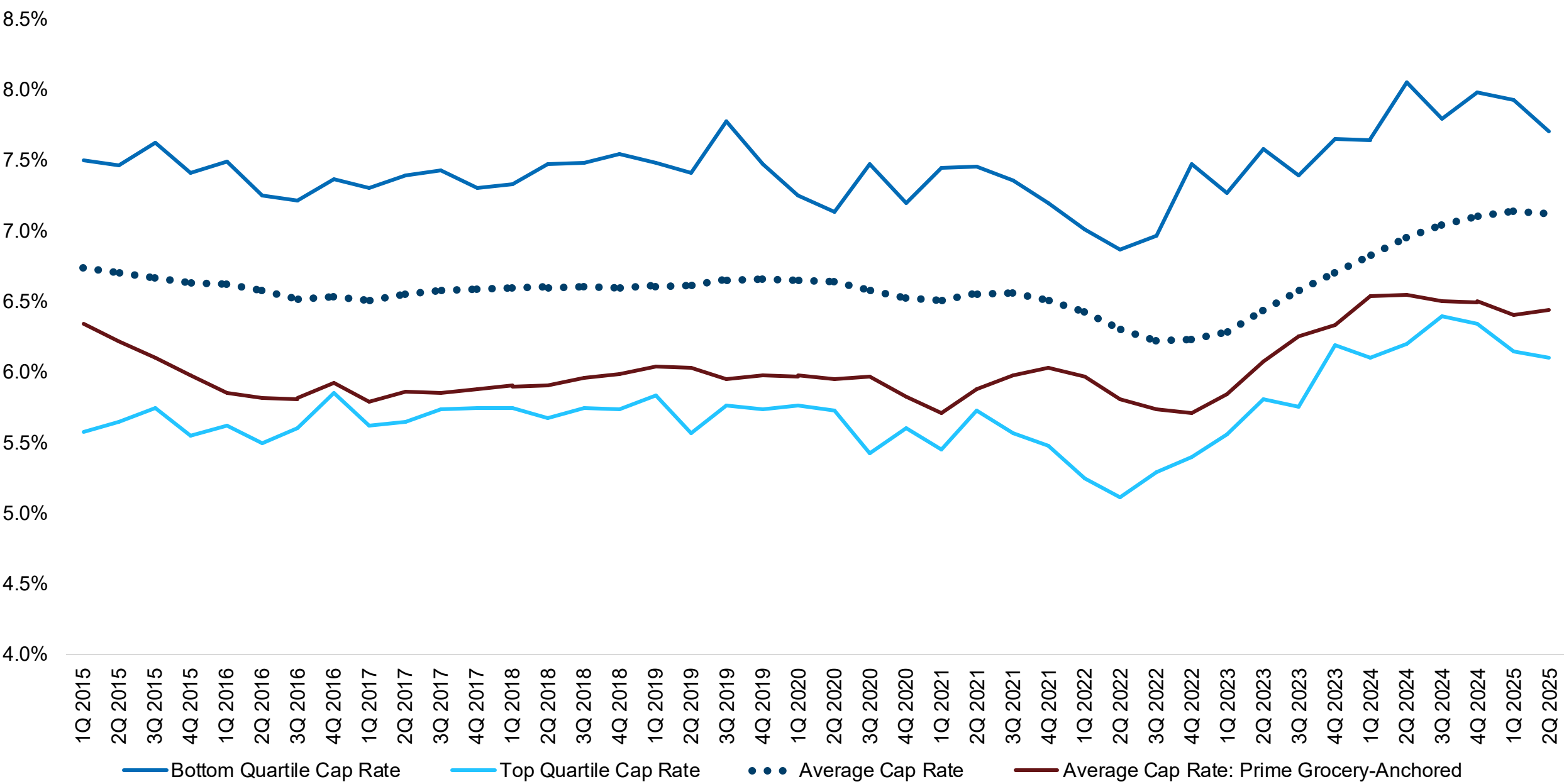


Source: MSCI Real Capital Analytics, July 2025.

Prime Grocery-Anchored and Top-Quartile Cap Rates Remain Level

Cap rates were more of a mixed bag, with bottom quartile cap rates falling 20 basis points quarter-over-quarter and top quartile cap rates down 10 basis points. As a result, average cap rates remained essentially flat, as did cap rates for prime grocery-anchored assets.

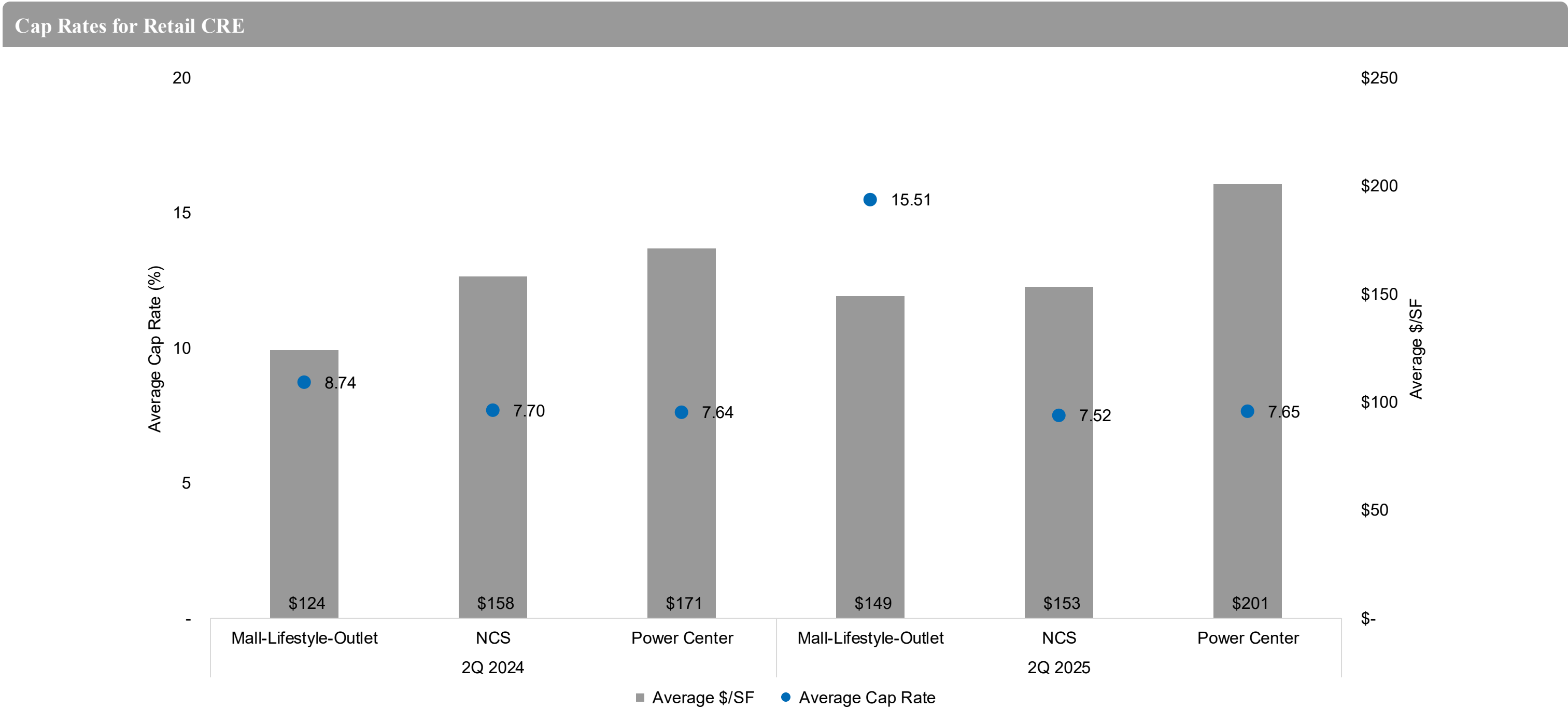
Cap Rates for Retail CRE



Prime grocery-anchored assets refer to trades of grocery-anchored retail centers at \$200/SF or higher.
Source: MSCI Real Capital Analytics, July 2025.

Price Per Square Foot Rises For Malls and Power Centers, Caps are Largely Flat

On a year-over-year basis, sale price per SF rose by nearly \$25 for malls, lifestyle centers and outlets, while power centers saw an increase of almost \$30/SF. Malls, lifestyle centers and outlets also experienced a notable rise in average cap rates, likely due to the trading of subprime assets. Cap rates for neighborhood, community and strip centers remained relatively flat, as did those for power centers.

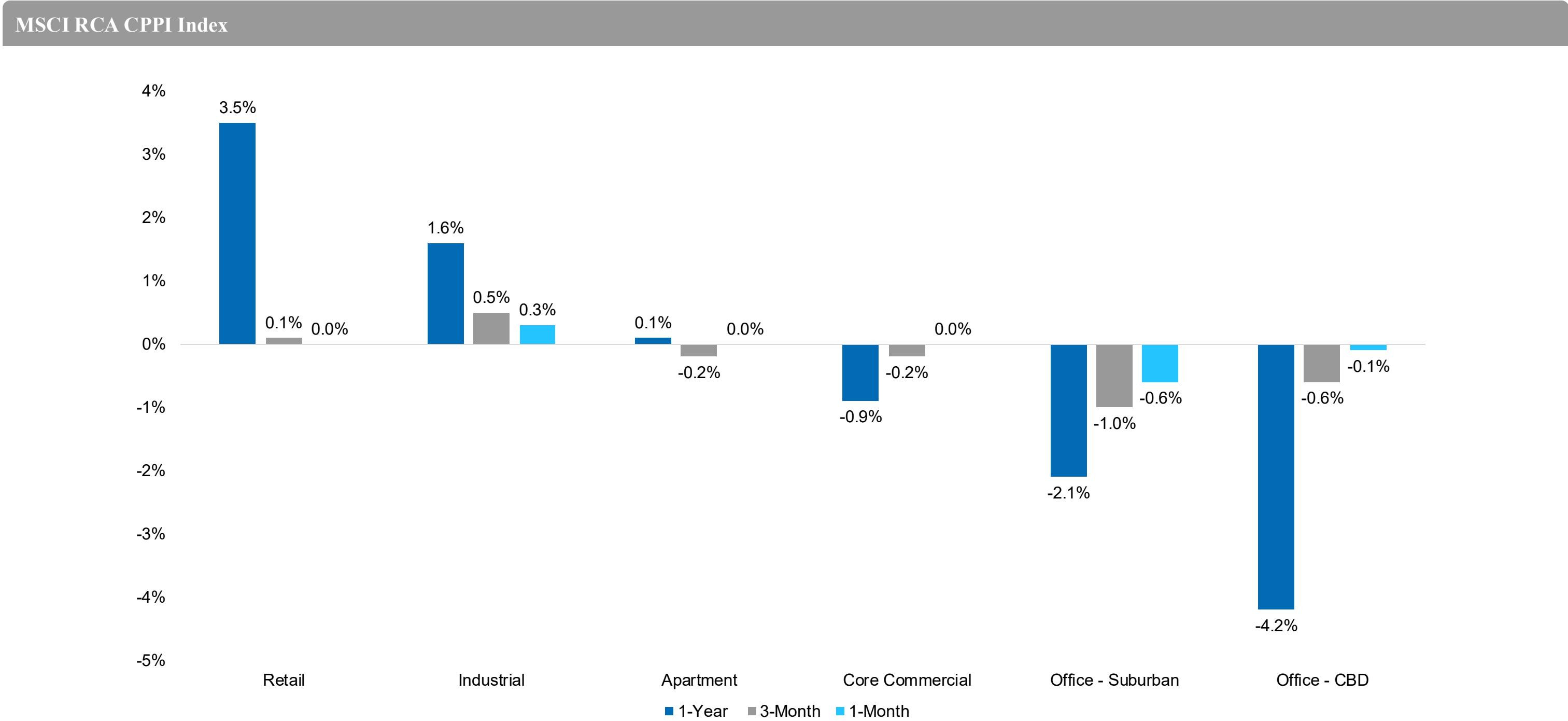


Source: CoStar, July 2025.

REITs account for 34% of large-transaction activity in 2025, up from just 12% in 2024.

Retail Leads CRE Values Index Growth

According to the RCA CPPI index, retail CRE values rose 3.5% year-over-year as of June 2025—the highest increase among all property types. Values also posted slight gains on a three-month basis and were stable on a one-month basis. Industrial CRE is the only other property type to manage positive or stable values across all time frames.



Source: MSCI Real Capital Analytics, June 2025.

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