

Retail Real Estate Space Still Tight in 2024



The latest National Association of Realtors (NAR) “Market Insights” report comes with more good news for a retail sector that’s showed remarkable resilience in recent years. NAR’s August figures show that the retail sector continues to maintain a record low vacancy rate, with just 4.7% of retail space available for lease.

That figure reflects an ongoing trend, where demand for retail space has consistently outstripped supply. Worth noting, however, is that NAR’s latest data also shows that retail net absorption is “down by 40 percentage points compared to a year earlier,” indicating that the demand may finally be slowing.

For commercial real estate (CRE) professionals, those conflicting figures raise some key questions. Specifically: What should we expect from the retail sector in the months to come? And will demand for retail space continue to grow in the long run?

Low Construction Has Impacted Availability

One of the key factors that has been buoying the demand side of the retail equation is the limited availability of new space. In November 2023, Dodge Construction Network reported that construction starts dipped to a ten month low, with non-residential projects leading the decline. Among those declines were new starts on retail projects, which GlobeSt reported as having reached “their lowest levels for a number of decades” in the first three quarters of last year.

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That situation seems to have shifted this year, with a recent Dodge Momentum Index showing a large uptick in overall construction — including in the retail sector where planning has been “steadily accelerating over the past eight months.”

For such a tight sector, that incoming new supply could be good news, especially in terms of leasing activity. But a lot will depend on whether there’s continued demand from occupiers to meet the supply when it gets here.

Demand-Side Drivers and Shifting Strategies

Looking ahead, a number of additional factors are likely to shape continuing demand for retail space. Among the biggest is consumer sentiment, which McKinsey & Company reports is holding strong, even in the face of economic uncertainty. Equally important are regional differences as some states, like Florida, benefit from robust consumer spending and high rental rates, while others areas face a tougher challenge.

A lot also depends on the adaptability of retailers themselves, which is being put to the test as consumer preferences shift towards convenience and localized shopping. Some of the biggest retailers, however, are already rising to that challenge by offering smaller, boutique spaces even as their larger stores lose traction.

Taken together, these trends indicate a retail market that, while evolving, is likely to remain resilient in the coming months, especially considering the current space crunch. As NAR sums up: “With fewer retail spaces under construction, the fundamentals of this sector are expected to remain tight for the rest of the year.”

