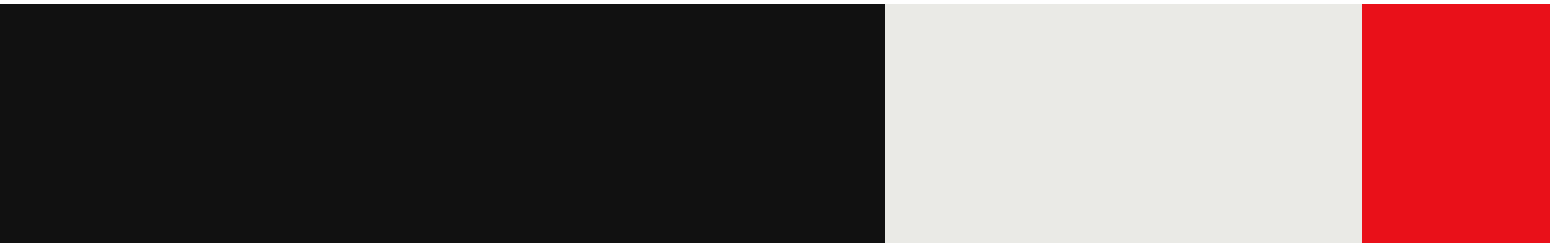


Retail availability rate hit a 10-year low in Q2

Article



The trend: There are fewer retail vacancies than any time in the past 10 years, per a CBRE study reported by Chain Store Age.

- The **Q2 retail availability rate was 5.1%**, with available space in the neighborhood, community, and strip center segment falling by 2.4 percentage points over the past five years and 5.3 points over the past 10.
 - **Availability in the mall and power center sectors were around 6%** at the end of the quarter.
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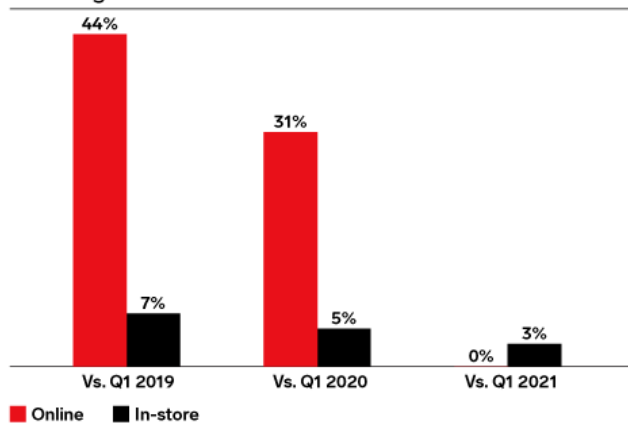
- With less availability, **landlords are raising rents**. The average retail rent rose 2.4% year-over-year in Q2, which was the highest annual growth rate since Q1 2017.

The context: Consumers have shifted more of their spending offline, as brick-and-mortar retail sales growth has outpaced that of ecommerce for four straight quarters.

- **More store opened than closed in the second half of 2021**, per BDO. And there were **only three retail bankruptcies filed from July 2021 through mid-February 2022**, two of which were brand groups that did not operate brick-and-mortar stores.
- Meanwhile, a number of **direct-to-consumer (D2C) retailers such as Brooklinen and Parachute opened their own stores**, while startups such as Showfields are providing space for D2C brands to operate pop-ups.
- While inflation has driven some consumers to shift their spending from buying nice-to-have items to everyday necessities, consumer spending has been fairly resilient—particularly among higher-income households.

US Consumer Spend Growth, by Channel, Q1 2022

% change



Source: Cardlytics, "Q1 2022 State of Spend," May 12, 2022

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Times have changed: Remote work has given people fewer reasons to leave their neighborhoods, which has driven retailers to test new formats such as smaller stores or mobile-first experiences that help them accommodate the various ways shoppers prefer to engage with retailers.

- **Best Buy** plans to open its first small-format store, which will feature a curated product selection, access to services such as Geek Squad, and new ways to pick up purchases, including pickup lockers.
- **Sleep Number** recently debuted a sustainability-focused store concept that showcases its new Sleep Number Climate360 bed, per Retail TouchPoints. The store uses technology to demonstrate how its products promote healthy sleeping habits, while also providing a place where shoppers can engage with associates. The retailer plans to open 16 such locations by the end of the year and eventually use the concept across its portfolio of over 650 stores.
- **Nike** recently debuted a new store format, [Nike Style](#), that blends digital and physical experiences to maximize engagement and foot traffic. For example, QR codes throughout the store allow shoppers to open augmented reality experiences. The store also features a program that allows customers to personalize Nike products.
- **Macy's** is [opening more smaller-format stores](#) as it adjusts its retail footprint away from malls to accommodate changing consumer behaviors.

The big takeaway: An extremely unusual set of circumstances spurred by the pandemic has created the current tight commercial real estate environment. The situation is unlikely to continue as inflationary pressures and costs cause challenges for nearly every retailer, including giants such as [Walmart](#) and [Target](#). As the landscape grows even more difficult, some struggling retailers will shutter their stores (and may even file for bankruptcy).

- But even amid a slowing economy, retailers need to find new ways to leverage their physical presences to build relationships with consumers. That requires experimentation because what works for one merchant may not work for another.