TOP TRENDS IN RETAIL

By Eric Walter, President of Greenberg Gibbons

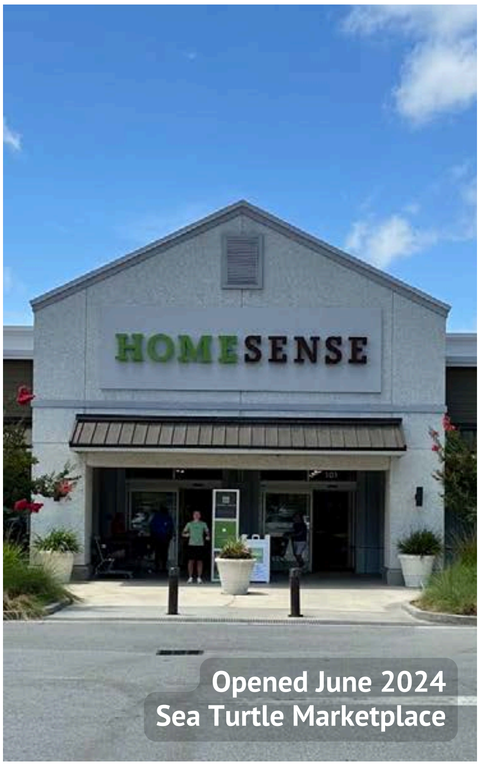
The retail real estate industry has demonstrated remarkable resilience throughout history. Just a few years ago, the combination of COVID-forced store closures and the continued growth in e-commerce caused headlines forecasting the "retail apocalypse". Now, GlobeSt is publishing data that in Q1 2024 retail was the strongest performing real estate asset class.

One thing is certain – retail and real estate is constantly evolving. Here at Greenberg Gibbons (GG), we are focused on the customer experience and accessibility to deliver great results. Retail concepts change. How people spend their time changes. Yet, customers will always prioritize experiences and convenience.In an ever-changing world where technology will continue to impact habits, we find it paramount to focus on experiences and convenience as we continue to seek opportunities within the Mid-Atlantic market, throughout the East Coast, and even as far West as our latest acquisition just outside of Nashville.

For years, GG's focus and reputation has been built on developing, leasing, and managing open-air retail-led mixed-use lifestyle centers in the Baltimore/D.C. MSAs. As a response to the pandemic, we saw an opportunity to diversify our portfolio geographically through the acquisition of existing shopping centers where we could create value through active management, our network, and selective redevelopment. Since the start of our Real Estate Investment Fund I in 2021, GG has expanded its footprint across seven states with 600+ tenants and 6.7 million square feet of assets under management valued at $1.6 billion. Read on to learn more about what we're seeing in today's retail environment.

HISTORICALLY LOW NEW CONSTRUCTION AS INTEREST RATES RISE

New construction is largely prohibitive in most markets, costing between $300-500psf and the entitlement process is taking much longer. In order to justify new construction, rents need to average north of $35-45psf to make sense which is not possible in many markets. Only 14 million square feet of new multi-tenant retail is expected to be delivered in 2024, which is half of the projected demand. Moreover, the pandemic has affected real estate decisions and population migration trends, benefitting suburban development and our properties. Despite near-term continued inflation, construction costs are stabilizing as new starts wane and GG expects a further decline in construction costs for goods (not labor) over the balance of the year.



Opened June 2024
Sea Turtle Marketplace

LEASING AND OCCUPANCY - A LANDLORD'S MARKET

With the decrease in new construction spend over the last decade (2022 down 63% since 2008), retail square feet per capita is the lowest level in decades. As a result of decreased supply, GG is realizing the best leasing momentum in more than 15 years with more than 36 new leases signed in 2023 at an average increase of 57% over prior rent and the majority of leases featuring annual rent growth in excess of 2.5%/year. Nationally, store openings in 2023 were 45% higher than closings with a net absorption of 35 million square feet. Projections call for 28 million square feet of openings in 2024. Additionally, technology is becoming more available (i.e. PlacerAI, Creditntel, Yardi, etc.) to influence better and faster decision-making. Rethinking vacancy, repositioning uses, and leveraging hard consumer data have worked well for us. Our portfolio is currently more than 95% leased.

INCREASED DEMAND FOR SERVICE-ORIENTED, CONVENIENCE, AND CURB-SIDE RETAIL OFFERINGS

Customers prefer retail-led mixed-use environments, and investors are beginning to see it as a dedicated asset class. GG has several mixed-use projects under development and is committed to reinvesting in existing legacy assets through several means including façade renovations, improved common area amenities and design, and diverse leasing strategies focused on experiences and merchandising for cross-shopping. Creating the "third place" is still as important as ever and placemaking starts with retail. Therefore, it is important to offer tenants and customers alike the accessibility and placemaking to support omnichannel success. Tenants recognize the importance of brick-and-mortar and that element of convenience. We are seeing a stronger shift towards drive-thru concepts and services that aren't offered online.

Real estate trends shift, and e-commerce will continue to grow as a percentage of total retail sales, but GG remains bullish on the future of retail shopping centers that focus on convenience, accessibility, experiences and flexibility. Leveraging our team's diverse capabilities is one way we're able to overcome challenges and move quickly on strategy. Collaboration and open-mindedness are also key. GG has been in the retail business for more than 56 years, boasting a long-track record delivering successful projects for all stakeholders. We're enthusiastic about the what's next. Follow along at www.ggcommercial.com.