NEWMARK

3Q25 U.S. Retail Market

Conditions & Trends

3Q25

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Key Takeaways

Improved balance between supply and demand has set the retail sector back on a positive trajectory, reversing two quarters of negative net absorption in 3Q25.

Availability remains at a historically but not record low of 5.3%.

Positive absorption of 1.1 million square feet was a surprise in 3Q25.

Consumer resilience is needed to maintain the puzzle.

Sunbelt markets continue to outperform and thrive.

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U.S. Market Observations

Economic Conditions & Retail Demand Drivers

- Tariff policy and inflation continue to weigh on retail sales, but consumers remain steady and continue to purchase products, albeit with more deliberate spending habits. The Federal Reserve Bank of Chicago forecasts a 0.5% gain in September retail sales, slightly above analyst guidance.
- Consumer sentiment toward present and future conditions remains low, which may continue to influence how people manage their spending.
- Service categories that have remained strong, include food services, drinking places and health and beauty.
- E-commerce activity has increased as consumers seek the best deals in an uncertain economic environment.

Leasing Market Fundamentals

- Retail absorption returned to net positive in the third quarter of 2025, which was an unexpected development.
- Although quarterly leasing activity remains muted, REITs maintain a strong signed-not-open (SNO) pipeline, driving move-ins this quarter. The pipeline is expected to support additional move-ins and backfill activity through 2025 and into 2026.
- A surplus of obsolete retail space on the market is restraining asking rents, which declined both quarter-over-quarter and year-over-year.
- Retail space productivity continues to rise, up 4.4% year-over-year in sales per square feet. The gap between newer and older retail centers also continues to grow.

Markets

- Sunbelt markets remain strong in both total absorption and absorption rate, with Dallas, Houston and Phoenix leading among the larger markets. Orlando and San Antonio are also performing well.
- Several major markets, including Seattle and Los Angeles, continue to face weaker demand.
- Among mid-size markets, Austin, Jacksonville and Northern New Jersey have outperformed, while others have lagged.
- Smaller markets such as Tulsa, Raleigh and El Paso have also recorded strong absorption in 2025.

Capital Markets

- 2025 retail investment sales volume has strengthened in 2025, with 3Q 2025 surpassing 3Q 2024 by more than 40% and marking the highest quarterly total since 3Q 2022.
- Large transactions continue to drive activity, with big-ticket deals picking up considerably in 3Q 2025, the strongest third quarter for such volume since 2018.
- Appetite from institutional investors and REITs remains strong, especially for larger assets, where they account for more than 55% of acquisitions.
- Retail values continue to outpace other property types, rising 5.3 % year-over-year, according to the MSCI/RCA CPPI Index.

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Economic Conditions & Demand Drivers

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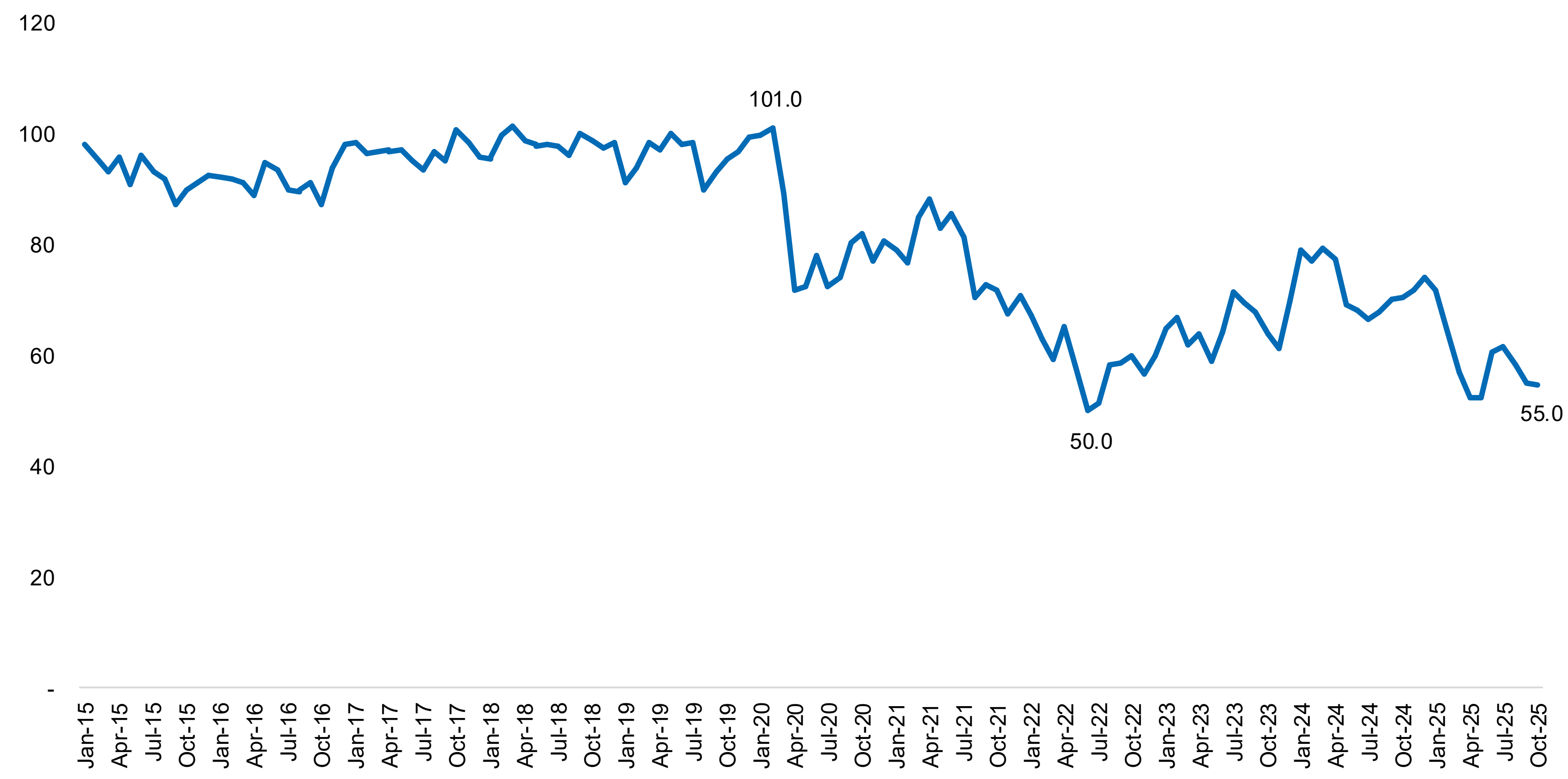
Consumer Sentiment Continues on Uneven Course

Consumer Confidence Index – Current Economic Conditions



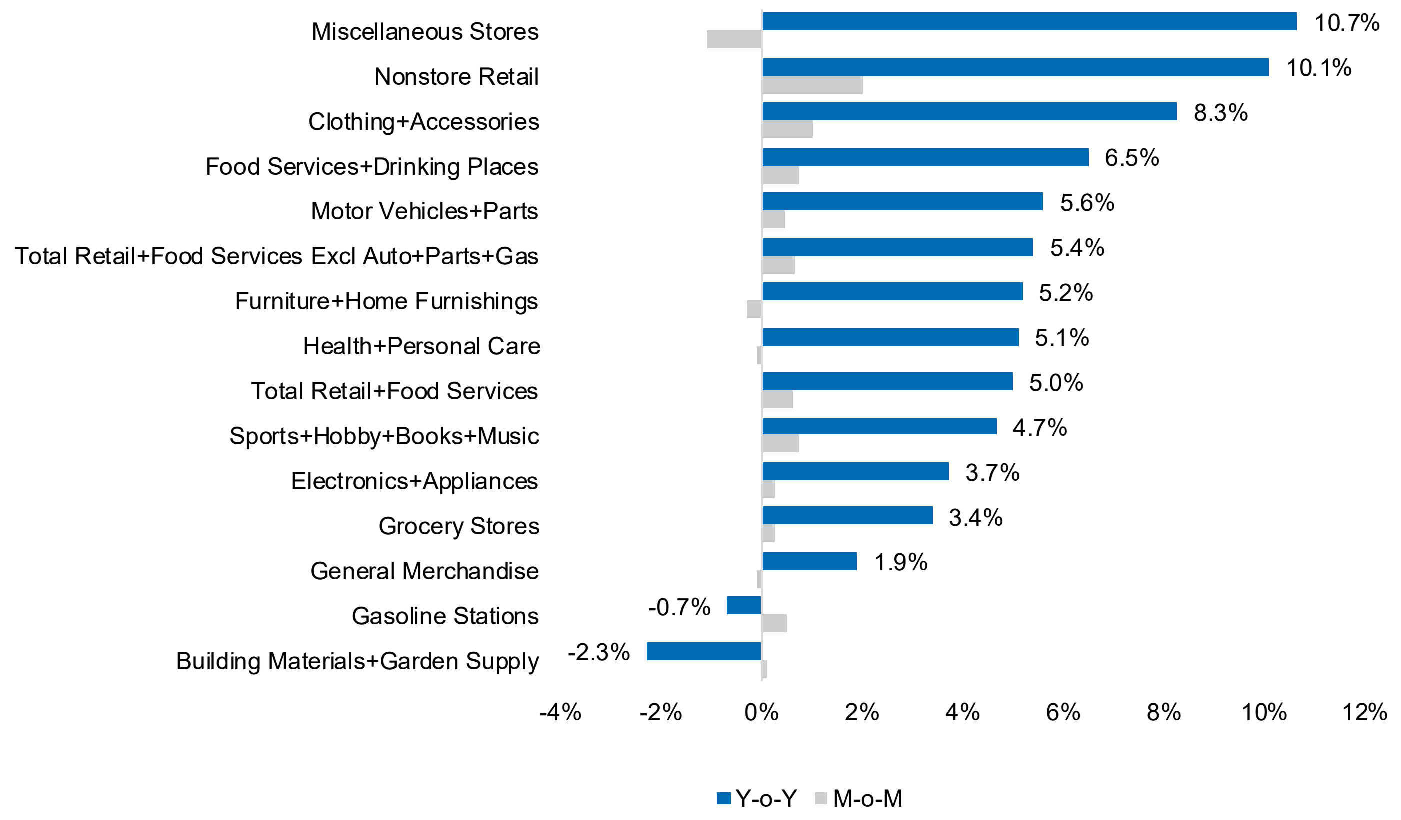
- U.S. consumer sentiment in 2025 declined from September to October, as high prices among consumer goods and the perception that prices will continue to rise remain top of mind.
- According to The University of Michigan's Surveys of Consumers, sentiment rose slightly among younger consumers but was offset by a slight decline among middle-age and older consumers.
- It is interesting to note that consumers are not associating the Federal government shutdown with economic challenges. Consumers mentioned the shutdown in just 2% of interviews conducted by the University of Michigan, whereas during the January 2019 shutdown, that figure was 10%.

Source: University of Michigan, October 2025.

Recent spending data show consumers are still buying, while surveys and sentiment suggest they feel cautious. The full impact of tariffs is yet to be seen, with the 2025 holiday shopping season poised to be a key indicator of consumer strength.

Miscellaneous and Non-Store Retail Lead the Pack; Services Remain Strong

Wages vs. Inflation, in Year-over-Year % Change

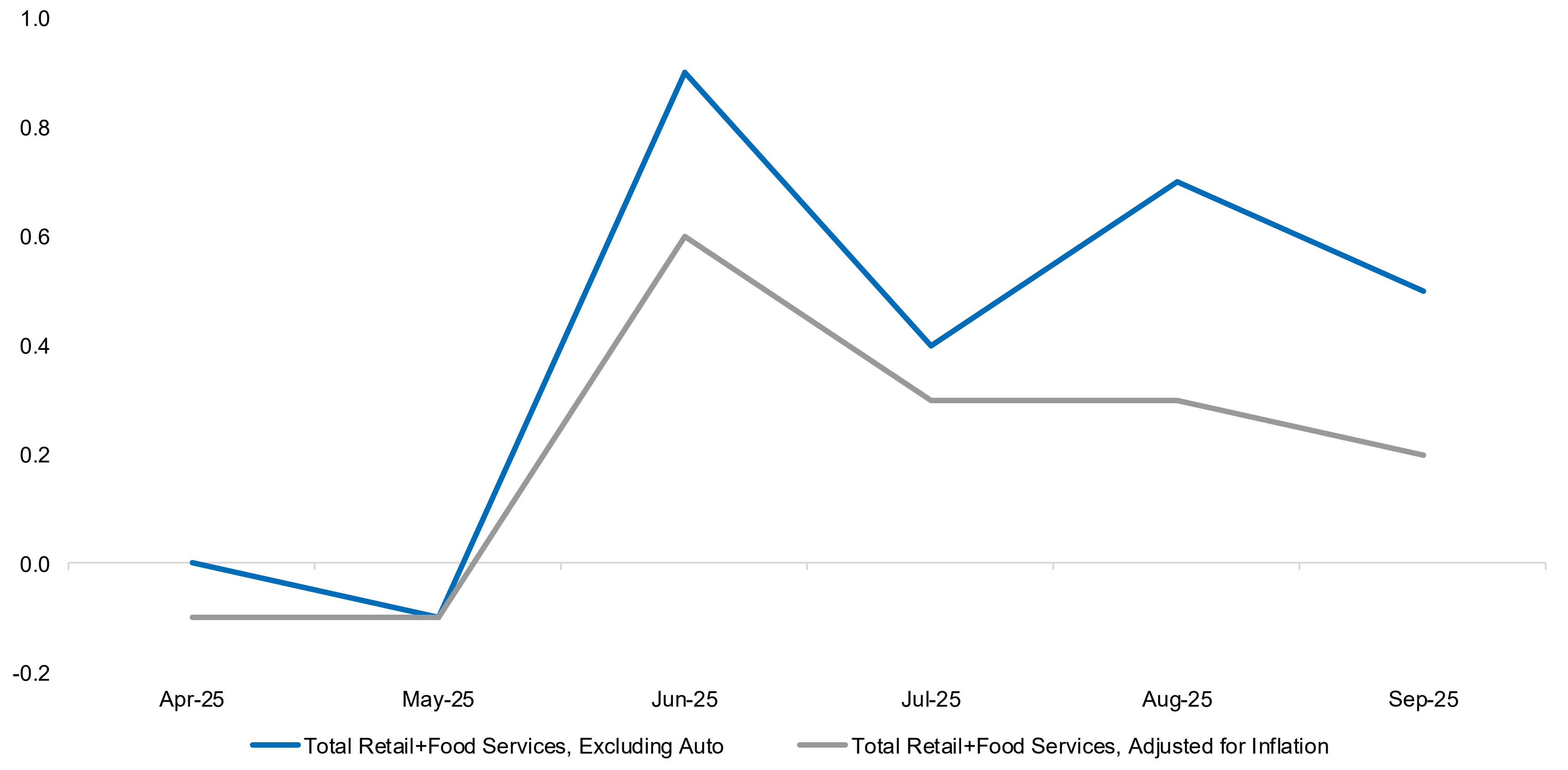


- Non-store retail, which includes e-commerce purchases, recorded the strongest month-over-month growth at 2.0% in August 2025, as back-to-school shoppers turned to digital channels to find the best prices amid inflation pressures.
- Miscellaneous stores continue to lead in year-over-year growth, though the category declined 1.1% month-over-month in Q3.
- A strong back-to-school season also lifted clothing and accessories sales, which grew 8.3% year-over-year.
- Despite economic uncertainty, consumers continue to treat themselves to small luxuries, particularly dining out and personal care services.

Source: U.S. Bureau of Labor Statistics, August 2025

Chicago Federal Reserve Bank Forecasts 0.5% Retail Sales Gain in September

Total Retail and Food Services Sales, Excluding Autos, in Month-over-Month % Change



- The Chicago Fed anticipates that U.S. retail sales will continue to grow. Even in the face of inflation, the Fed projects 0.2% inflation-adjusted growth.
- The Chicago Fed's forecast is-slightly above Bloomberg's analyst forecast of 0.4% growth in September, as analysts expect consumer demand to have eased following a strong summer season.
- The index summarizes weekly data on retail transactions and foot traffic, and gasoline sales and consumer sentiment, which are both used to project current monthly retail and food services sales, excluding sales of motor vehicles.

Source: Federal Reserve Bank of Chicago, October 2025.

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Leasing Market Fundamentals

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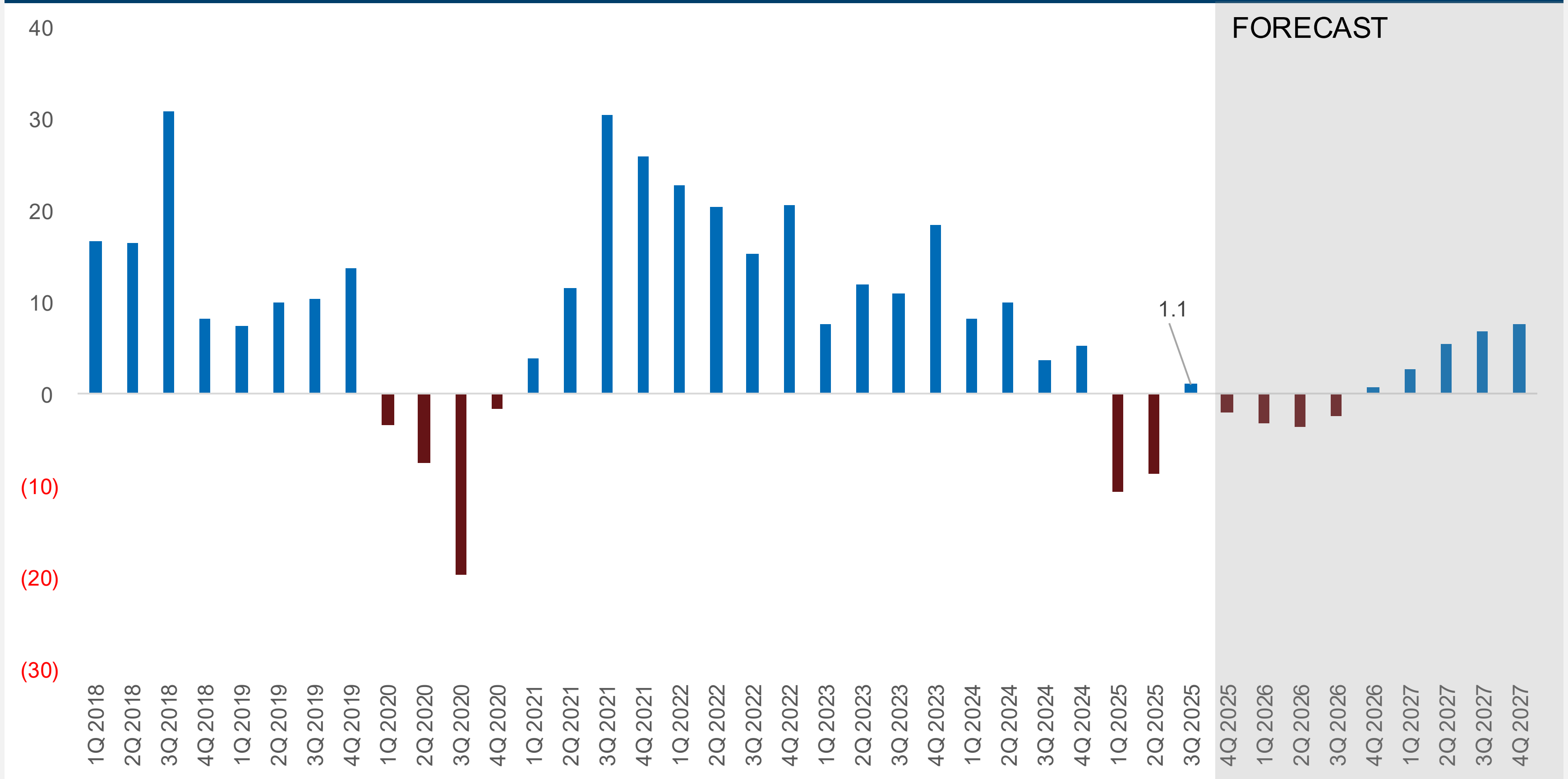
Net Absorption Battles Back to Positive in 3Q 2025

Retail Net Absorption by Quarter, in Millions of SF

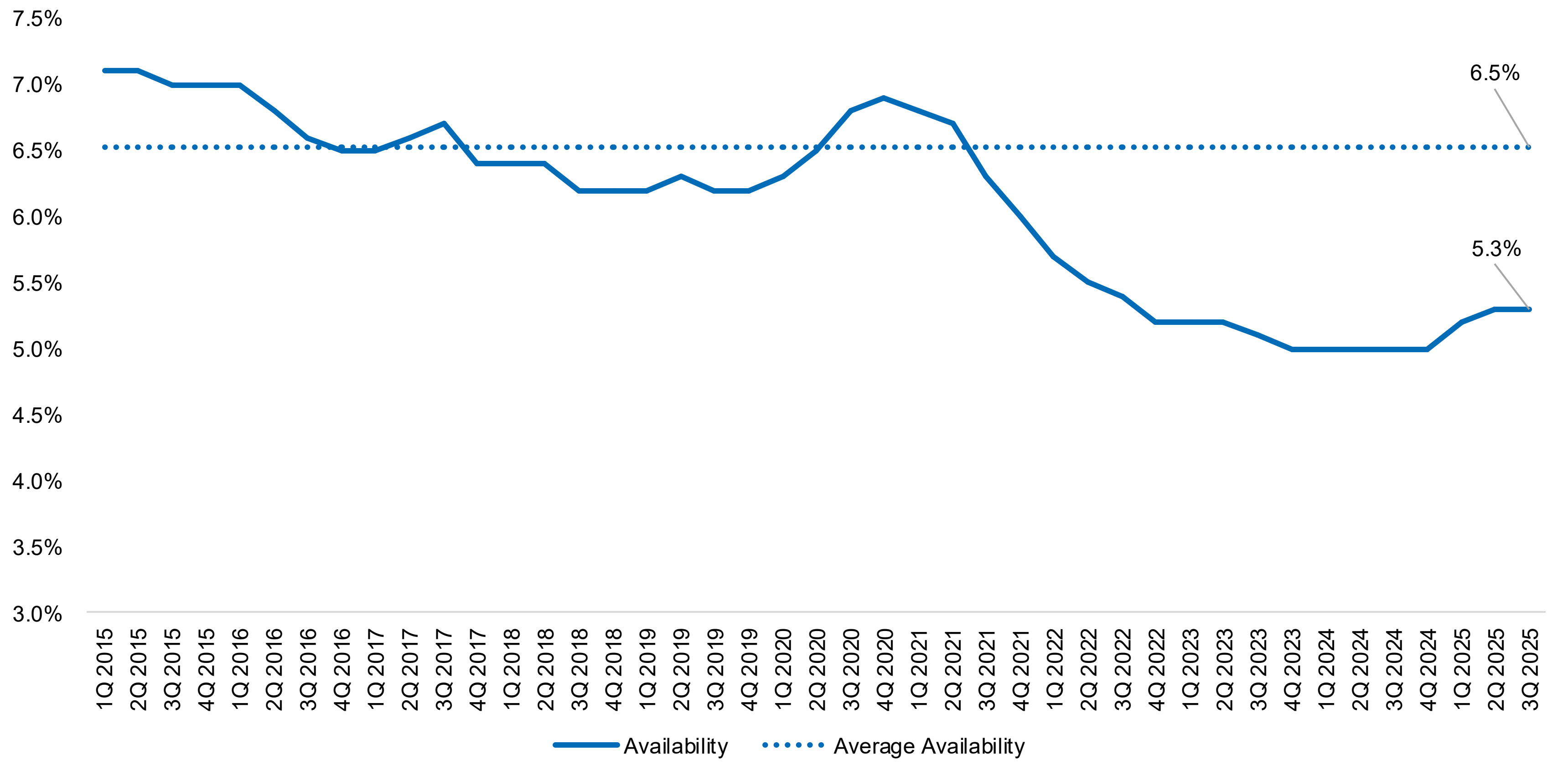


- 1.1 million square feet of positive net absorption in the third quarter broke a two-quarter negative trend—potentially signaling that uncertainty among retail occupiers has eased.
- Vacancy created by store closures in strong markets are being quickly backfilled, as demand for prime space remains solid and opportunities are limited.
- Additional support comes from the robust signed-not-open (SNO) pipelines that retail REITs maintain, with move-ins scheduled through the remainder of 2025 and into 2026 and 2027.
- REITs are also keeping very high levels of tenant retention. According to the 3Q25 earnings call for Regency Centers, they remain consistent at a 75% renewal rate. InvenTrust managed a retention rate of 89%, while Phillips Edison managed a 94% rate.

Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 3Q 2025.

Availability Remains Level at 5.3%, 120 bps Below Long-Term Average

Total Retail and Food Services Sales, Excluding Autos, in Month-over-Month % Change



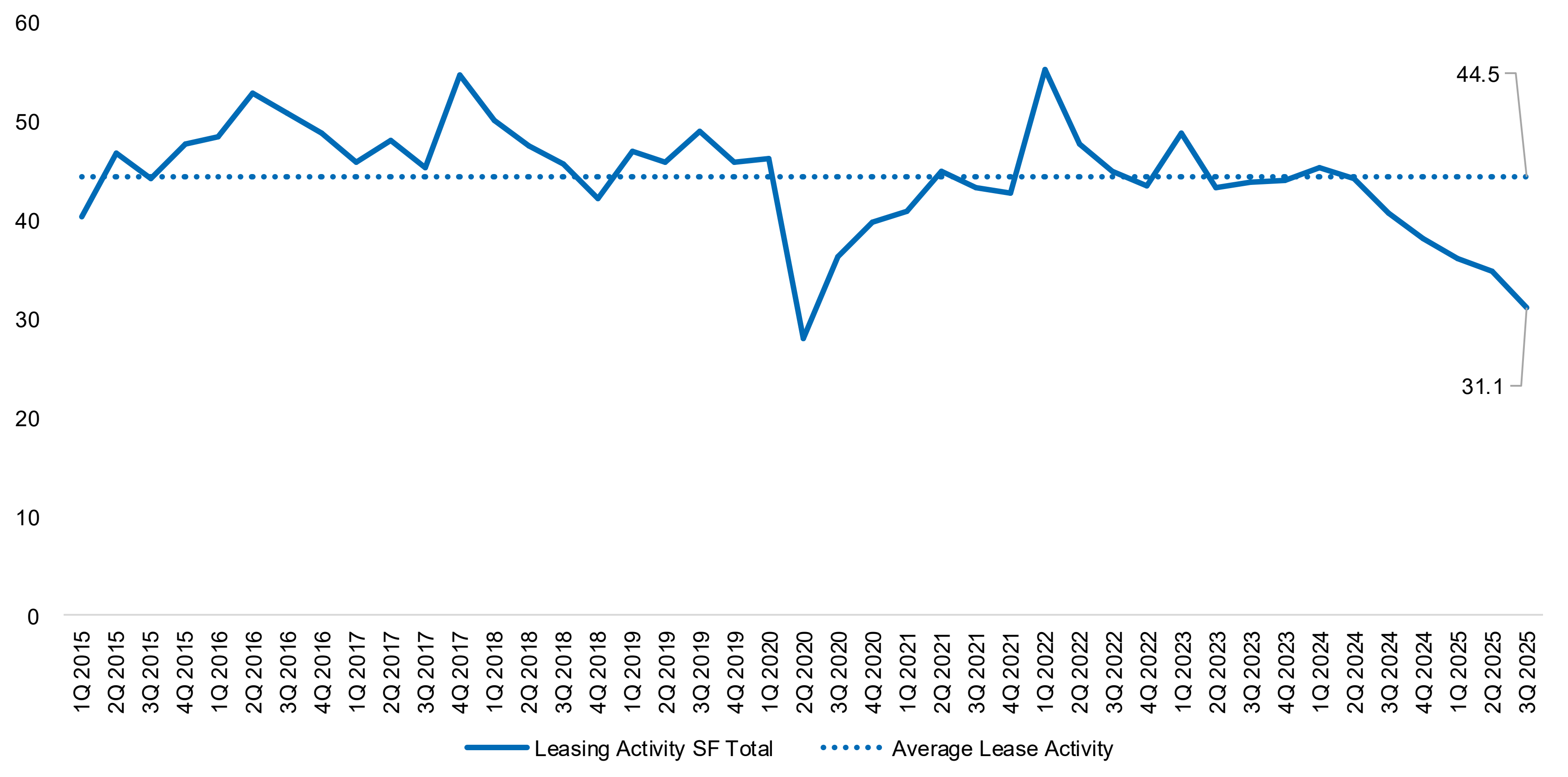
- Retail availability rose to 5.3%, up 10 basis points quarter-over-quarter and 30 basis points year-over-year.
- Despite this increase, the availability rate remains well below the long-term average of 6.6%.
- Even with ongoing economic uncertainty, it is unlikely that retail will experience a significant contraction in availability as seen during previous periods of disruption, such as the COVID-19 pandemic or the Global Financial Crisis (GFC).

Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 3Q 2025.

The combination of a robust signed-not-open pipeline and high rates of tenant retention from retail REITs is significantly contributing to the low availability rate.

Retail Lease Volume Continues Decline as Scarcity of Prime Space Remains

Quarterly Leasing Activity vs. Ten Year Average for Retail CRE, in Millions of SF



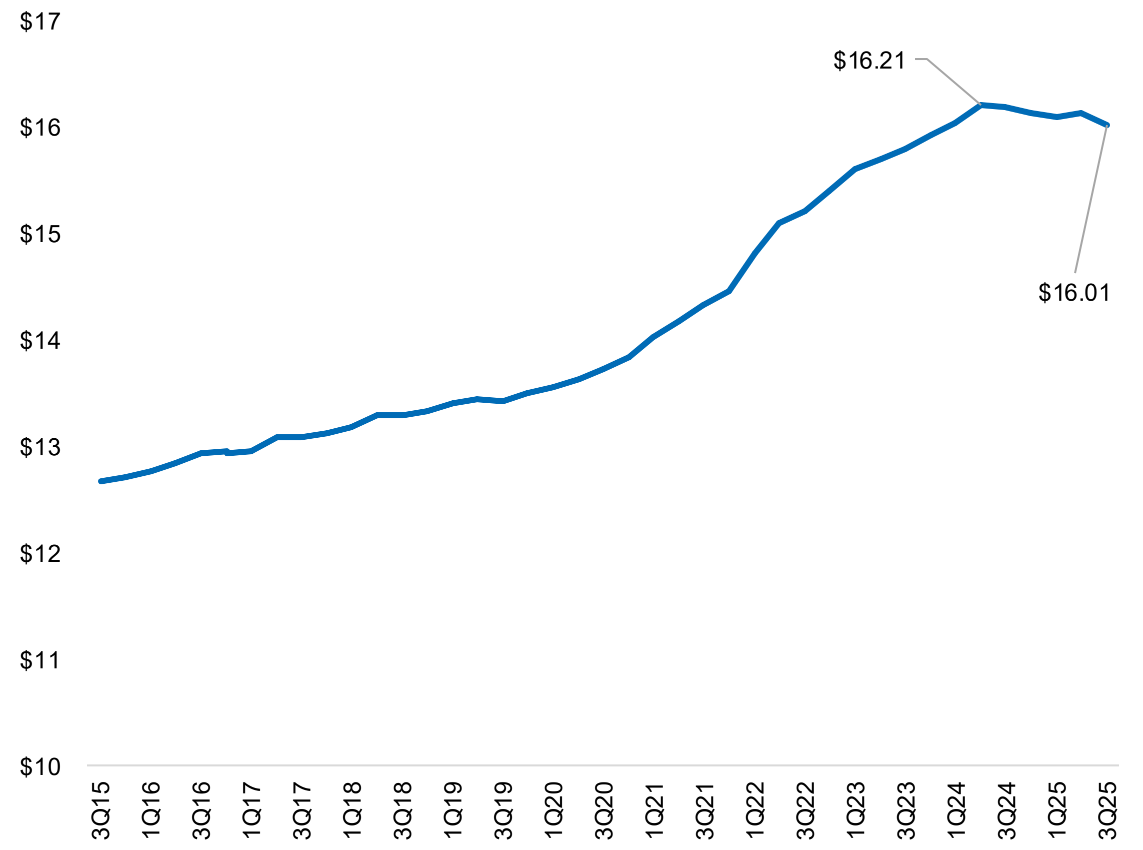
- Retail leasing activity has slowed but remains solid for prime centers in strong trade areas. Total lease volume for the third quarter of 2025 was 31.1 million SF, about 30% below the long-term average of 44.5 million SF.
- Freestanding properties performed well during the quarter, as did power centers, where steady backfill activity was observed.
- Class B malls led performance, as higher availability has created more opportunities for prime spaces within these centers.
- As lease volume has eased, some leverage has shifted back to occupiers, particularly in centers with multiple spaces on the market.

Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 3Q 2025.

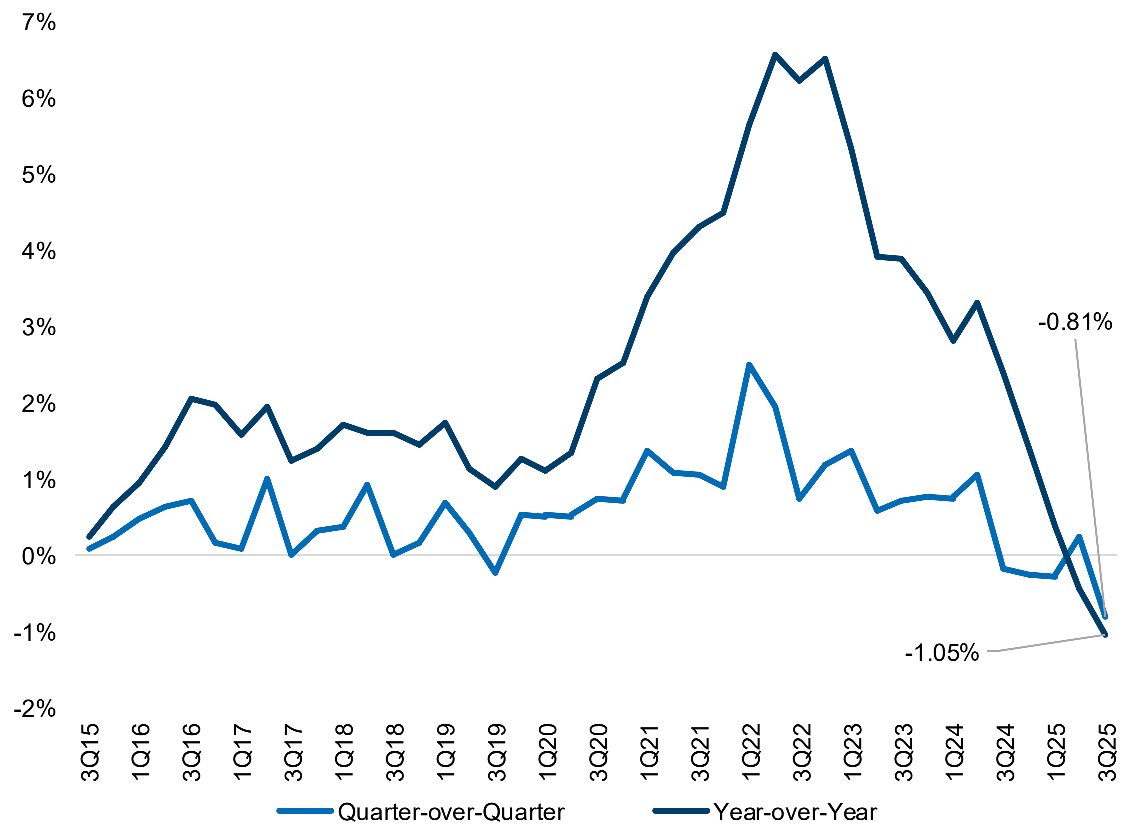
Asking Rents Fall on Year-over-Year Basis for First Time in a Decade

Both quarter-over-quarter and year-over-year asking rents declined. A closer look shows that asking rents are being anchored by a growing share of subprime space. Almost 260 million square feet of retail space currently on the market has been listed for two years or more, accounting for roughly 48% of total availability—an all-time high.

Retail CRE Asking Direct Rent, $/SF/NNN



Retail CRE Asking Direct Rent, in % Change



Considers all retail properties 20,000 sq. ft. and higher.
Source: CoStar, 3Q 2025.

03

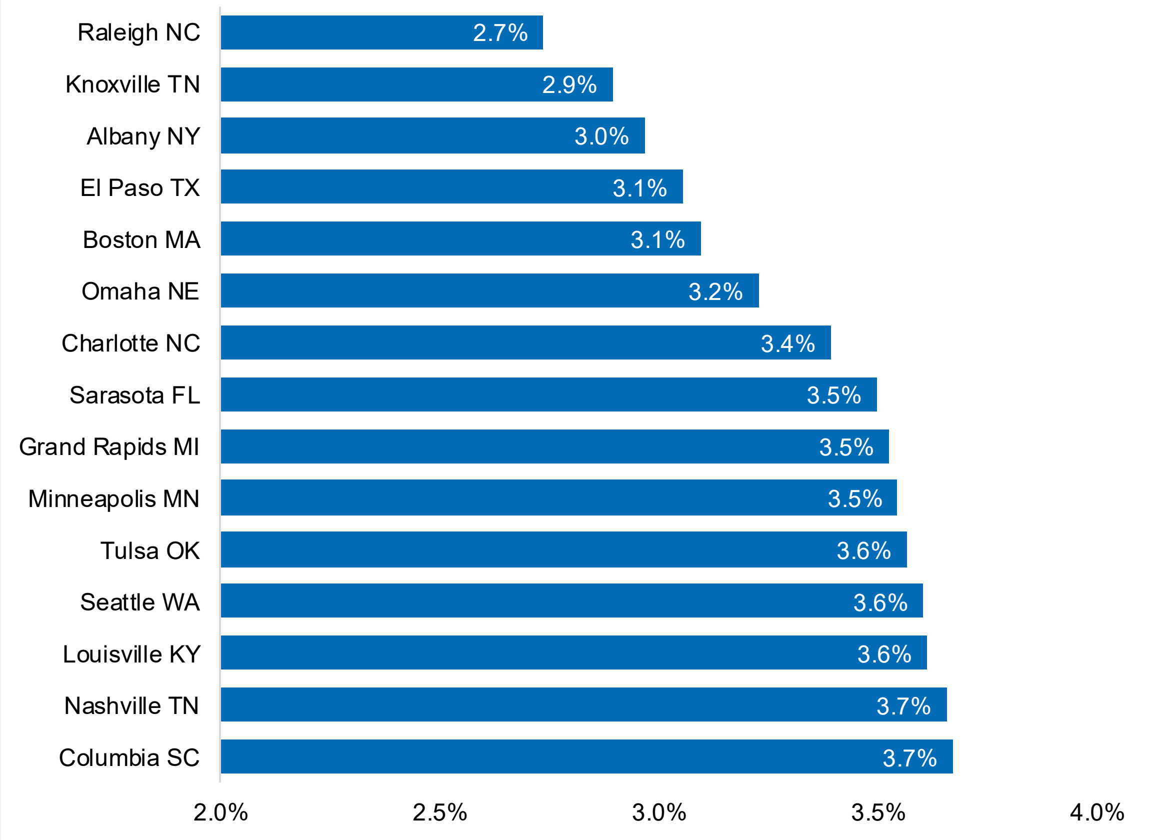
Retail Markets

3Q25

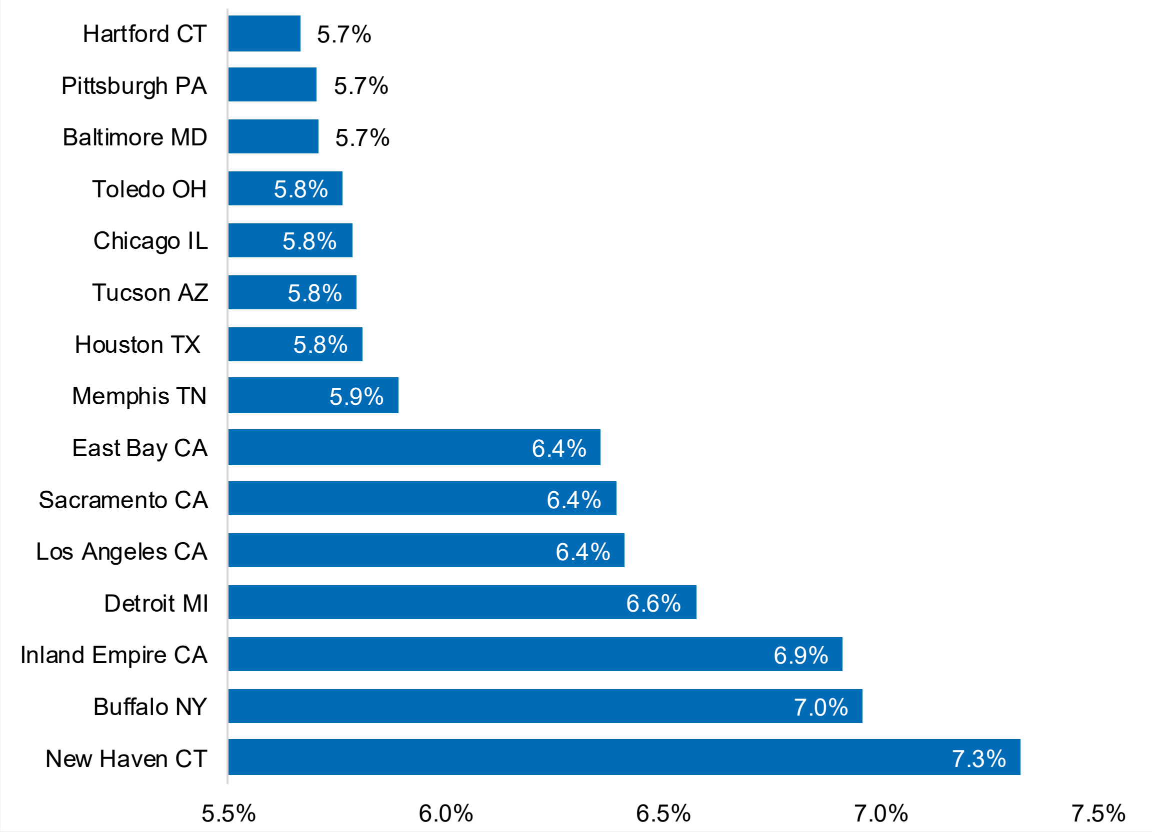
Top 15 and Bottom 15 U.S. Markets in Retail Availability by % Rate

Raleigh, Boston, Charlotte, Sarasota, Minneapolis and Seattle are among the markets experiencing notable retail tightness. Landlords in these areas are positioned to push rents and limit tenant concessions. Conversely, markets such as the Inland Empire, Los Angeles, East Bay, CA, and Chicago are seeing higher availability, giving tenants stronger leverage to negotiate rents and secure higher TI allowances.

Top 15 Markets in Availability, 3Q 2025



Bottom 15 Markets in Availability, 3Q 2025

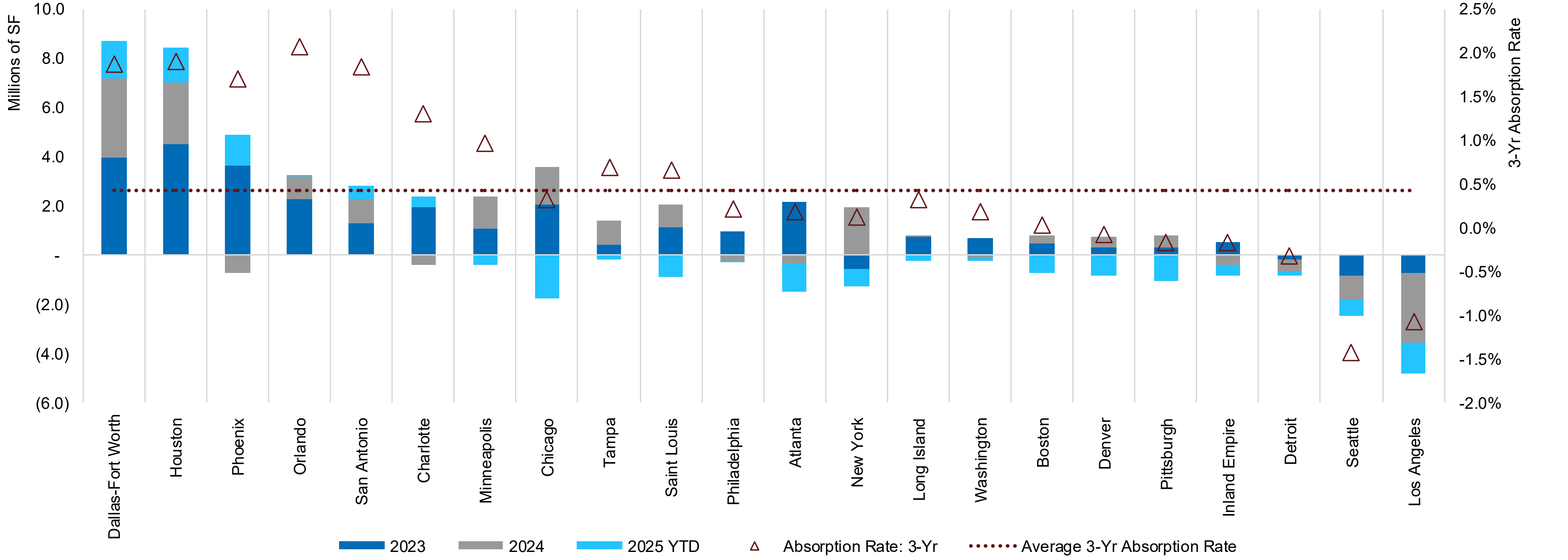


Considers all retail markets with over 50 million sq. ft. of retail inventory.
Source: CoStar, 3Q 2025.

Large Retail Markets in Southwest Lead U.S. in Recent Absorption Trends

Dallas–Fort Worth, Houston and Phoenix lead the nation in cumulative absorption since 2023, while Orlando ranks highest among major markets in three-year absorption rate at 2.1%. A negative total for net absorption in 2025 has paused Chicago's previously strong momentum, with St. Louis seeing a similar trend. Seattle and Los Angeles have recorded negative net absorption in each of the past three years, making those markets increasingly favorable for tenants.

Annual Absorption by Market, by Year, in Millions of SF and in 3-Year Absorption Rate, in Markets With a Retail Supply of 150 Million SF and Above



Considers retail markets with over 50 million sq. ft. of inventory, and an asset value of $50 billion and higher.
Source: CoStar, 3Q 2025.

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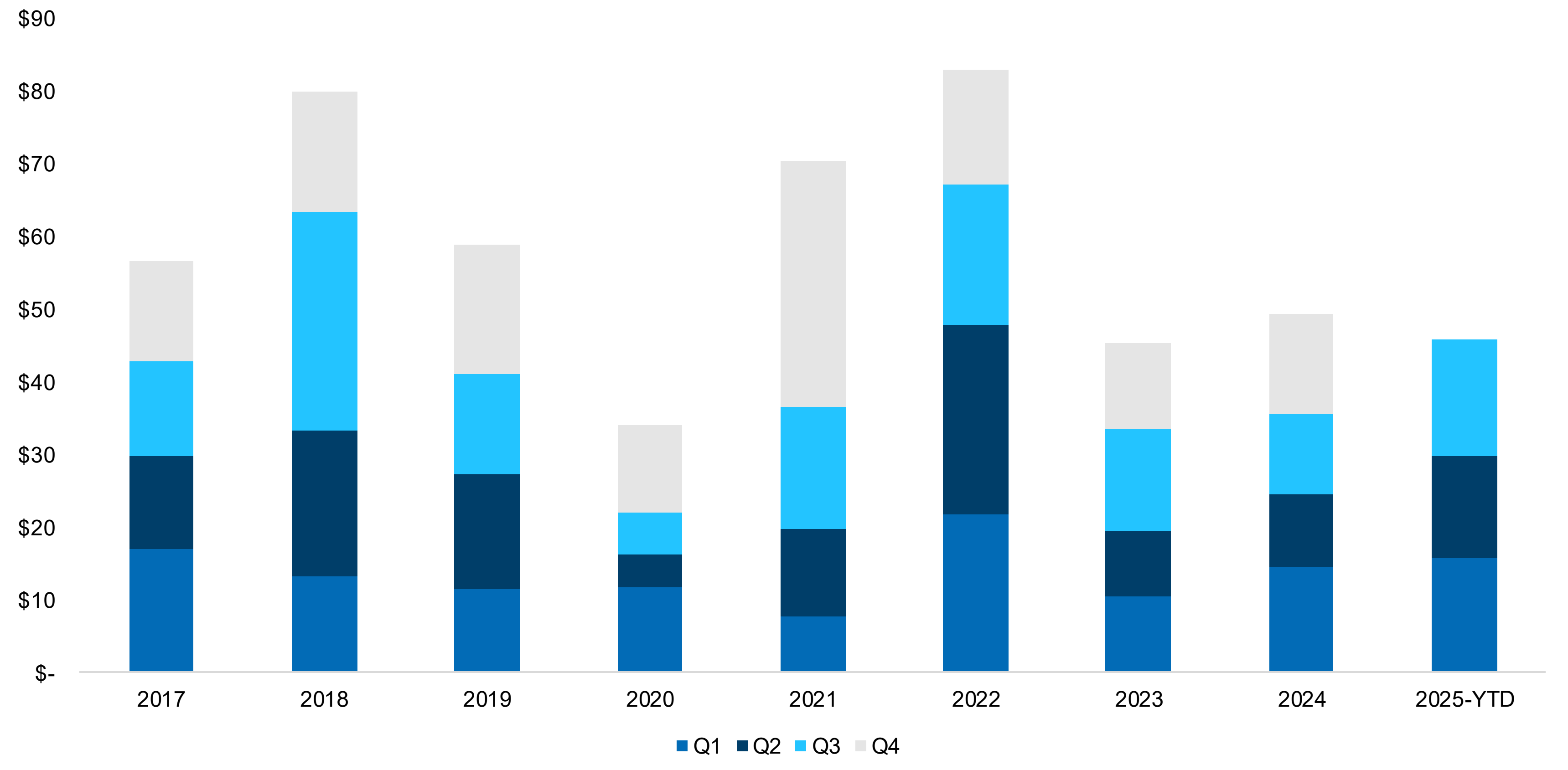
Capital Markets

3Q25

Retail Capital Markets Remain Solid in 3Q 2025

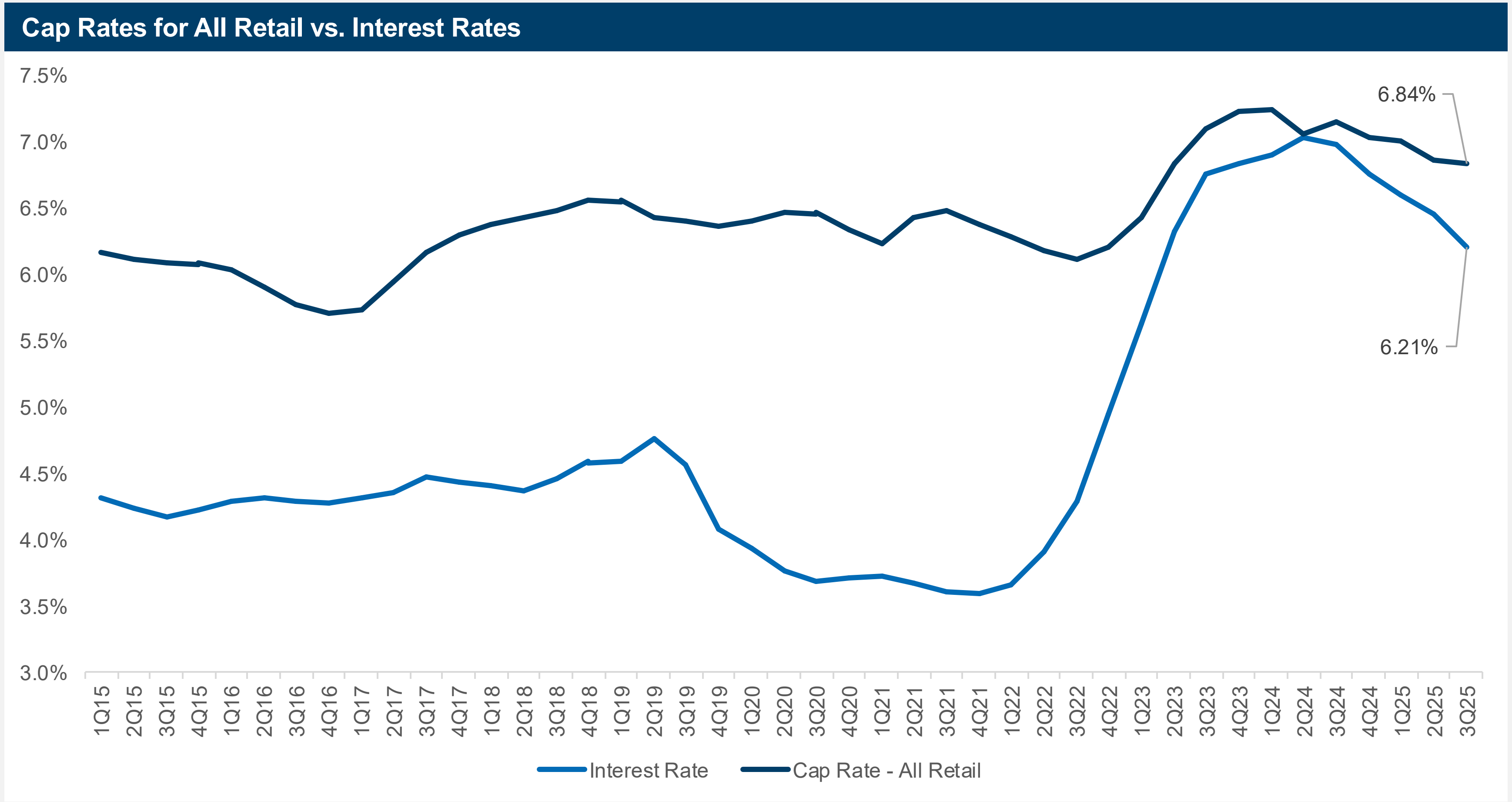
Retail Capital Markets Volume, in Billions of $



- Approximately $16.1 billion in retail assets traded in the third quarter of 2025, up 43% from the same period in 2024.
- The quarter also marked the highest volume since the third quarter of 2022, which was boosted by the market's rebound from the post-pandemic slowdown.
- 34 big-ticket deals have been closed in 2025 year-to-date, which is nine more than all of 2024 and just six deals behind 2022.
- At $45.8 billion in volume year-to-date, retail capital markets activity is 29% above the 2024 pace.

Source: MSCI Real Capital Analytics, Newmark Research, October 2025.

Cap Rates for All Retail Transactions vs. Interest Rates

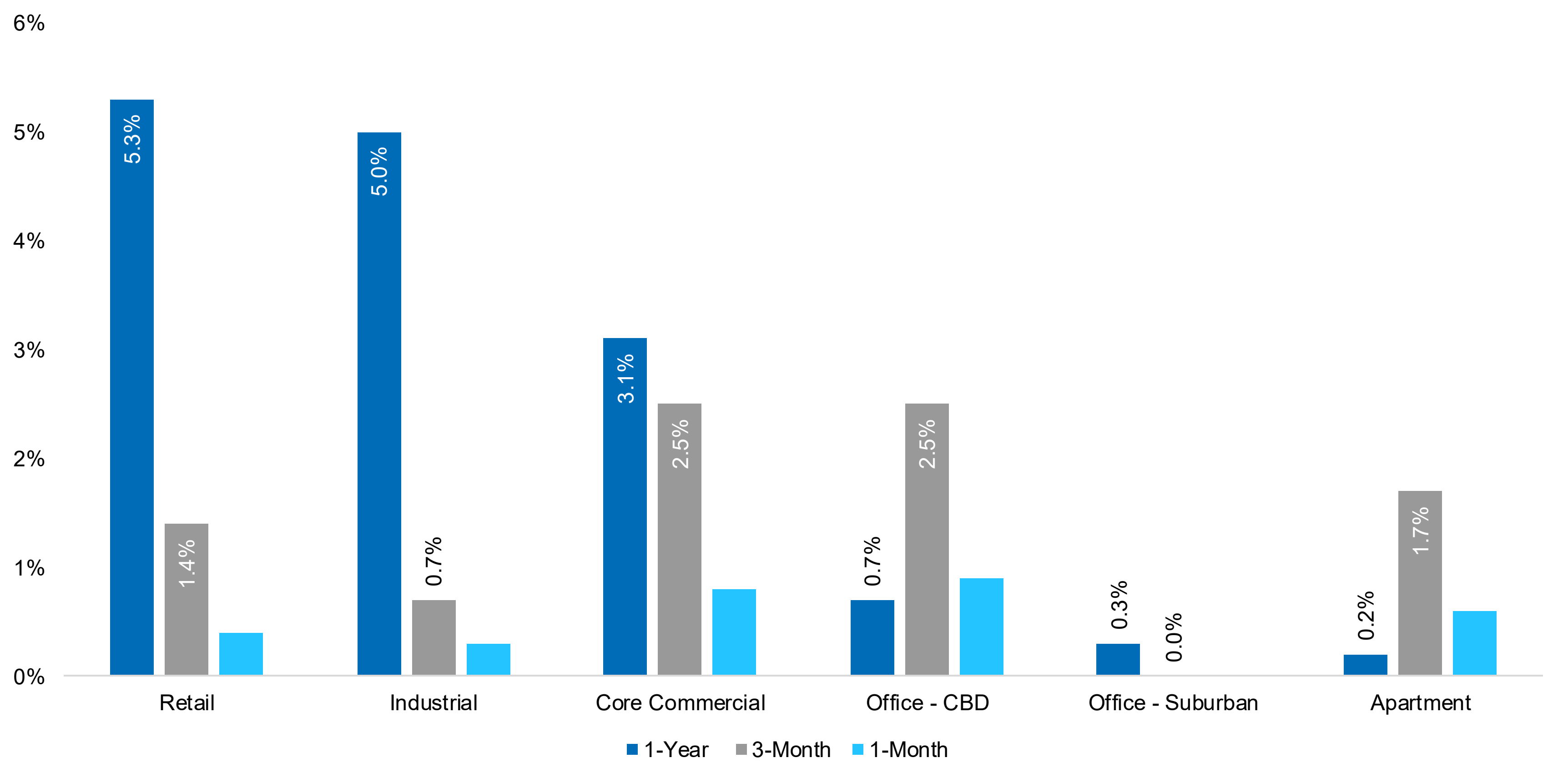


- Cap rates for all retail investment sale transactions averaged 6.84% in the third quarter of 2025, a slight decline from 6.86% in the previous quarter and nearly 30 bps below the 7.15% recorded in the third quarter of 2024.
- Lending rates on retail deals fell 25 bps quarter-over-quarter, widening the spread between lending and cap rates to 62 bps.
- This is an encouraging trend, as the spread between the two was nearly non-existent in the second quarter of 2024.

Source: MSCI Real Capital Analytics, Newmark Research, October 2025.

Retail Leads CRE Values Index Growth

MSCI RCA CPPI Index, in % Change



- According to the MSCI/RCA CPPI Index, retail CRE values rose 3.5% year-over-year as of September 2025—the strongest increase among all property types.
- Values also posted modest gains on both a three-month and one-month basis.
- CBD office has shown positive momentum over the past year, suggesting it has rebounded from its trough.

Source: MSCI Real Capital Analytics, October 2025.

Conclusions

Despite mounting challenges, retail real estate remains well-positioned to navigate prevailing headwinds and to continue its growth as an asset class.

U.S. consumers remain in good standing, with an overall low unemployment rate and wage growth which has outpaced the consumer price index since 1Q23.

Just as some retailers are closing underperforming stores to create operational efficiency, many others continue to expand both their customer base and their physical store footprint.

Equilibrium between tenant-favorable markets and investor-favorable markets remains healthy. Sunbelt markets are maintaining their momentum,- with some becoming developer-favorable.

Retail CRE has navigated every obstacle. After two years of sluggish volume, strong fundamentals have encouraged current investors to add to their portfolios, which has attracted attention from new investors and capital dipping into the market.

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