Commercial Real Estate

Retail Real Estate Finally Recovers from COVID

This report is excerpted from the Second Quarter 2025 Fixed-Income Sector Views.

Vacancy rates remain low in the face of declining new store supply.

Retail real estate faced challenges during the COVID pandemic, with store closures and tenant defaults impacting operating performance even as consumers returned to shop. Before 2023, retail investment sales lagged as owners focused on stabilizing performance metrics. Currently, we identify opportunities to invest in retail real estate with high debt-coverage ratios and robust rent growth.

Sector Commentary

- Real Capital Analytics reports that retail led all commercial real estate sectors in price appreciation over the past year, achieving 5 percent year-over-year growth.
- Retail vacancy rates remain at historic lows, slightly above 4 percent, with values for existing centers bolstered by a consistent decline in new construction supply.
- Recent tenant bankruptcies have been viewed positively by investors, who see opportunities to re-lease spaces at higher current market rents. Owners are receiving multiple competing tenant offers to lease vacant spaces in well-located centers.
- These trends indicate a robust retail real estate market, with strong demand and limited supply driving price appreciation and low vacancy rates. Investors are capitalizing on opportunities to enhance returns by re-leasing spaces at favorable rates, further supporting the sector's growth and stability.

Investment Themes

- Investors continue to favor grocery-anchored neighborhood centers, which have experienced the highest rent growth and some of the lowest vacancy rates in the sector.
- Service-oriented tenants, such as fitness centers, urgent care facilities, and restaurants, are driving increased demand for neighborhood centers, contributing to rent growth.
- A potential reduction in consumer spending could exert pressure on retailers, impacting their performance.
- Tariffs, coupled with higher construction and labor costs, continue to suppress the construction of new centers, supporting retail real estate values.
- These factors highlight the resilience of grocery-anchored centers and the importance of service-oriented tenants in maintaining demand and supporting retail real estate values amid economic uncertainties.

By Jennifer A. Marler and Karen Karwoski

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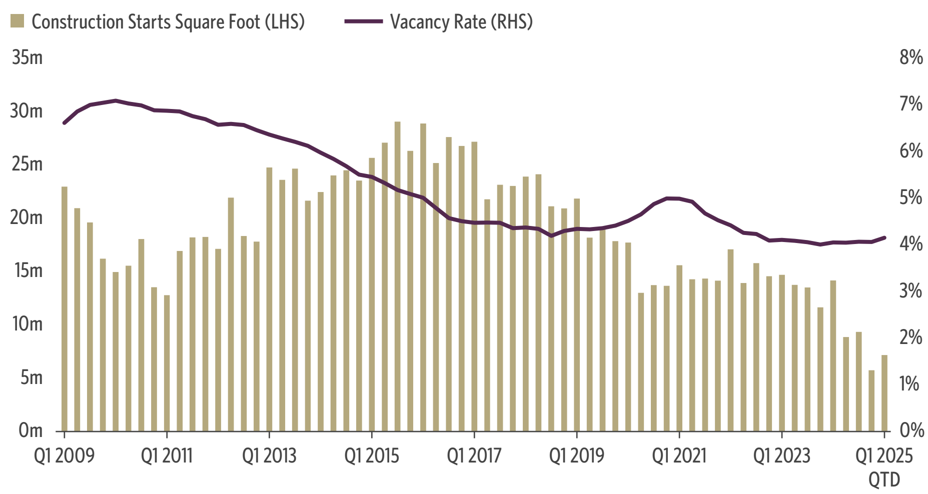
Retail Vacancy Rates Have Fallen, Bolstered by Declining Construction



Source: Guggenheim Investments, Real Capital Analytics. Data as of 3.31.2025.

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