VOL. 38 | NO. 04
PUBLISHED BY TURNAROUND MANAGEMENT ASSOCIATION

JOURNAL OF CORPORATE RENEWAL

JCR

TURNAROUND.ORG

MAY 2025

COMMERCIAL REAL ESTATE.

The State of the CRE Market: What's Hot & What's Not

The 6 Most Common CRE Lending Options

Private Equity View: Uncertainty & Change Provide Opportunity

THE OFFICE MARKET REBOUND?

Not So Fast

WHAT BECAME OF THE RETAIL REAL ESTATE APOCALYPSE?

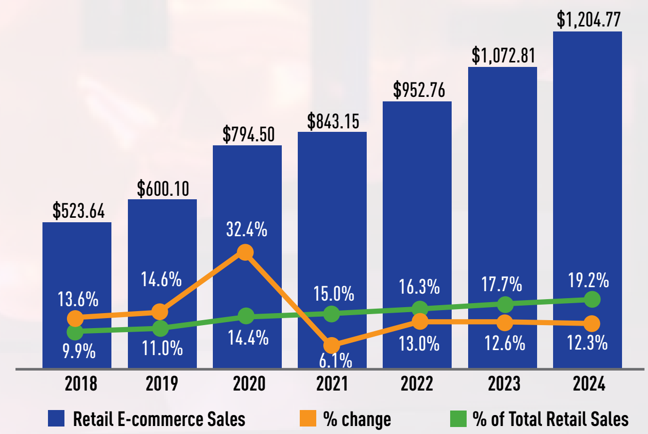
BY HAROLD BORDWIN, PRINCIPAL AND CO-PRESIDENT & CHRIS KATCHADURIAN, ASSOCIATE, KEEN SUMMIT CAPITAL PARTNERS LLC

Editor's Note: This article was written, edited, and finalized by April 1, 2025, before the global economic upheaval related to the tariff proposals from President Donald Trump.

For much of the past decade, the phrase "retail apocalypse" has loomed large over the retail real estate industry, conjuring images of abandoned malls, shuttered department stores, and the seemingly relentless expansion of e-commerce. The term gained traction around 2017, when a surge in store closures and high-profile bankruptcies[1] fueled fears that traditional retail was in an irreversible decline. Today, the reality is different—brick-and-mortar retail has not only stabilized but is showing remarkable resilience and adaptation. With historically low vacancy rates (4.2% as of August 2023, as reported by CoStar), strong consumer spending, and shifting market dynamics, retail remains an important real estate asset class. This article explores the state of retail real estate and what lies ahead.

It should be noted that this article talks about retail real estate at a very high level. Retail real estate varies not only by location, but also by property type (for example, mall versus neighborhood center versus power center versus strip center versus central business district). In addition, various real estate data sources compile their information differently so, while there may be discrepancies between the conclusions reported by different sources on vacancy rates or cap

Figure 1: US Retail E-commerce Sales
2018-2024 billions, % change, and % of total retail sales



Note: includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking place sales, gambling and other vice goods sales

Source: eMarketer. Oct 2020
Source: US Retail Ecommerce Sales 2018-2024

Figure 2: Amazon Will Surpass 40% of US E-commerce Sales in 2024
billions in US Amazon retail e-commerce sales and % of total retail e-commerce sales, 2020-2025

Note: represents the gross value of products or services sold on amazon.com (browser or app), regardless of the method of payment or fulfillment; excludes travel and event tickets, Amazon Web Services (AWS) sales, advertising services, and credit card agreements; includes direct and marketplace sales; excludes Amazon Business sales

Source: EMARKETER Forecast, Feb 2024
Source: Amazon Will Surpass 40% of US Ecommerce Sales This Year

rates, for instance, the general trends referenced herein are consistent.

The Origins of the Retail Apocalypse

The retail apocalypse narrative stemmed from a confluence of factors. The rise of e-commerce, led by Amazon, fundamentally changed how consumers shopped. As shown in **Figure 1**, e-commerce sales have continued to grow both in absolute terms and as a percentage of total retail sales, and, as seen in **Figure 2**, Amazon has continued to increase market share.

Convenience, price competition, and an expanded product selection have made online shopping an attractive alternative to visiting physical stores.

These challenges to brick-and-mortar retail were exacerbated by years of overexpansion among major retail chains. Many brands had saturated markets with excessive locations, often financed with unsustainable debt, leading to a wave of closures when economic conditions shifted.

As the last decade was ending, retail stalwarts such as Toys R Us (filed Chapter 11 in September 2017), Sears (filed Chapter 11 in October 2018), and J.C. Penney (filed Chapter 11 in May 2020), among others, were in decline and facing mounting financial distress. A shift in consumer behavior toward experiences over goods—along with the aftermath of the 2008 financial crisis—dampened sales for traditional retail giants.

In the United States, per capita retail space had reached an unsustainable peak, far surpassing other developed nations. At its peak in 2009, retail space per capita was 56.5 square feet. This peak of over-construction, coinciding with the Great Financial Crisis, ultimately led to a construction slowdown and an increase in retail vacancies[2], which peaked in 2020 at approximately 7.6%.[3] A Jan. 4, 2025, article in the Wall Street Journal stated, "For most of the 2000s, the U.S. was adding around 2.5% to its existing shopping-center space each year through new construction, according to Green Street. But this has slowed to around 0.5% for more than a decade, despite population

continued on page 28

As the last decade was ending, retail stalwarts such as Toys R Us, Sears, and J.C. Penney, among others, were in decline and facing mounting financial distress. A shift in consumer behavior toward experiences over goods—along with the aftermath of the 2008 financial crisis—dampened sales for traditional retail giants.

continued from page 27

growth."[4] For example, as of Q4 2024, 10.6 million square feet of retail space was under construction whereas in 2019, 20 million square feet of retail was under construction.[5] In light of inflation's impact on construction materials and labor costs—and the implications of further cost increases associated with tariffs—the likelihood of a flood of new retail real estate construction remains low.

Since 2020, the retail landscape has undergone substantial correction and realignment with a greater focus on optimizing store footprints, enhancing in-store experiences (i.e., where retail spaces serve as destinations for social interaction, fitness, and lifestyle services beyond traditional shopping activities), and integrating digital channels to create a seamless customer journey. Combined with a decrease in the construction of new shopping centers—in 2024, only 8.3 million square feet of new shopping center space was added, the lowest annual increase on record[6], the result has been that on a per capita basis, the U.S. now has 54.3 square feet of retail space per person.[7]

A New Era: Retail Vacancy at Historic Lows

Contrary to fears of widespread retail collapse, recent data points to a robust resurgence in physical retail. The U.S. retail vacancy rate has fallen to historic lows, hitting just 5.3% in Q2 2024, the lowest level in two decades.[8] By Q3 2024, this figure had declined further to 4.1%, remaining steady for three consecutive quarters.[9] (CoStar, as of March 2025, is reporting the overall vacancy rate at 4.2%.) For instance, mall operator Simon Property Group reported in 4Q 2024 a 96.5% occupancy rate across its portfolio, the highest in eight years.[10]

This reduction in vacancy rates is largely due to a combination of reduced new construction, adaptive reuse of existing spaces, and strong consumer demand for in-person shopping experiences. The adaptive reuse/repurposing of vacant retail space has helped maintain demand and reduce vacancies. Landlords have converted vacant space into mixed-use developments (creating a combination of residential, hospitality, and retail uses), co-working spaces, entertainment hubs, medical centers,[11] and even logistics centers supporting e-commerce operations.

The Consumer Resilience Factor

One of the biggest drivers of retail real estate's resilience has been the unexpected, continuing strength of the American consumer. Government stimulus programs during the COVID-19 pandemic injected nearly $2.1 trillion into households, creating a surge in spending. Although these excess savings have, as of May 2024, been largely depleted, consumer spending has remained robust.[12] This is largely attributable to the strong labor market (the unemployment rate as of Dec. 31, 2024, was 4.1%[13]) and rising wages.[14]

America's gross domestic product (GDP), 68.2% of which comprises consumer spending[15], has increased annually since 2021, as follows:

- $23.2 trillion in 2021.
- $25.45 trillion in 2022.
- $27.36 trillion in 2023.
- $28.1 trillion in 2024.

The 2024 holiday season alone saw retail sales reach a record $994.1 billion, up 4% year-over-year.[16] Categories like off-price retail and discount segments, on the one hand, and luxury, on the other, have performed exceptionally well, indicating that consumers are still engaging with physical stores, albeit with altered preferences. The growth of the off-price segment suggests that consumers remain price-conscious, actively seeking deals while still valuing in-person shopping experiences. Meanwhile, luxury retail's performance underscores both the spending resilience among higher-income consumers as well as the sector's ability to drive foot traffic into malls and shopping districts.

Concerns exist about the American consumer's ability to keep shopping. Notably, the American consumer is not a monolith. Spending by the top 10% of income earners is probably not at risk. Continued spending by lower income consumers, however, will largely depend upon a continued strong labor market. By 2019, total consumer debt had surpassed pre-Great Financial Crisis levels. As of Q4 2024, household debt reached $18.04 trillion, approximately $4 trillion higher than in 2019.[17] Credit card debt reached a record $1.21 trillion as of Q4 2024, growing by $45 billion from Q3 2024.[18] Credit card delinquencies are rising: 5.78% of balances were 90+ days past due in Q3 2024, up from 3.69% a year earlier.[19]

The overall financial health of American households combined with consumer confidence levels and, thus, consumers' ability and willingness to keep spending in the face of uncertain economic policies, tariffs, interest rates, inflation, stock market, etc., will affect the future of retailers and thus retail real estate.[20] In a March 12 article, the *Wall Street Journal* reported that "signs of weakness are showing up in spending on everything from basics to luxuries."[21]

While the uncertainty related to tariffs in global markets will have changed by the time this feature is published, stock market drops traditionally lead to the top 10% of consumers to pull back on spending. It's the reverse wealth effect.[22]

Shifts in Retail Space Utilization

Beyond consumer behavior, another critical factor reshaping retail real estate is how space is being used. Malls, once written off as relics, are seeing a revival as major brands reposition themselves within them. Luxury brands, for instance, have doubled down on mall locations, with 48.5% of new luxury store openings between mid-2023 and mid-2024 occurring in malls, according to S&P Global.[23] Furthermore, anchor tenants like Macy's, while still struggling, are consolidating their footprints to optimize profitability.[24]

Retailers are also increasingly integrating e-commerce into their physical locations. The concept of "omnichannel retail" has led to a rise in hybrid fulfillment models where brick-and-mortar stores double as distribution centers for online orders. This strategy not only enhances customer convenience but also reinforces the necessity of physical locations.

Investment & Market Conditions

Keeping in mind that retail real estate market conditions depend on overall location and property type the industry remains in post-pandemic flux.

With respect to the dollar volume of annual retail real estate sales, CoStar has reported that the dollar volume of sales transactions leaped in 2021-22 in conjunction with the low-interest rate environment. Once interest rate hikes kicked in, the dollar volume of retail real estate sales dropped dramatically in 2023 and 2024, as detailed below:

- Pre-COVID, 2014-2019, retail real estate sales were annually between approx. $61-$73 billion.
- In 2020, retail real estate sales dropped to approx. $49 billion.
- In 2021, approx. $87 billion.
- In 2022, approx. $97 billion.
- 2023, approx. $54 billion.
- 2024, approx. $58 billion.

Increasing transaction volumes are important for the real estate market because transactions provide the market with pricing guidance and allow for the recycling of capital. As these records show, the $58 billion of retail real estate transactions in 2024 are approaching the pre-COVID stabilized range of $61-73 billion of transaction volumes.

With respect to average cap rates, CoStar reports:

- From 2014–2019, the average cap rates ranged from 6.8% to 7.3%.
- In 2020, the average cap rate was 6.7%.
- In 2021, the average cap rate was 6.4%.
- In 2022, the average cap rate was 6.0%.
- In 2023, the average cap rate was 6.5%.
- In 2024, the average cap rate was 6.7%.

Keep in mind that the movement of cap rates is inverse to the movement of property valuations (i.e., when cap rates rise, valuations fall, and vice versa).

By comparison, CBRE is forecasting a 24-basis point compression in retail cap rates from their 2024 peak by the end of 2025, signaling potential appreciation in property values.[25]

When looking at retail real estate by asset class, essential retail spaces—such as grocery-anchored shopping centers—have remained relatively stable. Investor demand is also focused on open-air shopping centers and well-located urban retail corridors, which benefited from low vacancy rates and limited new supply.[26] As of early 2025, prime urban retail locations continue to command strong valuations, supported by rising retail demand and renewed foot traffic.

Class A regional malls themselves have remained strong performers, as reflected in lower vacancy rates as well as in lower cap rates (i.e., higher values). According to Newmark's 2024 Mid-Year Market Survey, going-in cap rates vary significantly by mall class, as follows:

continued on page 30

Beyond consumer behavior, another critical factor reshaping retail real estate is how space is being used. Malls, once written off as relics, are seeing a revival as major brands reposition themselves within them. Luxury brands, for instance, have doubled down on mall locations, with 48.5% of new luxury store openings between mid-2023 and mid-2024 occurring in malls, according to S&P Global.

continued from page 29

- Class A Regional Malls: 6.25%
- Class B Regional Malls: 10%
- Class C Regional Malls: 17%

The implications of this difference in cap rates are shocking. A Class A mall with $5M of NOI, valued at a 6.25% cap rate, is worth $80 million. At the other end of the spectrum, a Class C mall with $5 million of NOI, valued at a 17% cap rate, is worth $29.4 million.

Challenges Facing Retailers

Given the combination of competitive pressures and market conditions, research firm Coresight estimates that 15,000 stores will close in 2025, almost three times the number of projected openings.[27] Discount retailers, in particular, are under pressure, with brands like Dollar Tree considering a strategic review of Family Dollar following hundreds of closures in 2024.[28] The rise of ultra-low-cost e-commerce competitors, such as Shein and Temu, has further strained discount stores, leading to a 360% increase in closures within the sector.[29]

The Future of Retail Real Estate

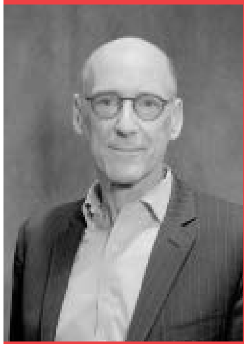
As discussed, the health of the retail real estate industry is based upon the health of its rent-paying tenants—the retailers—and the health of retailers is based upon the spending power of the American consumer. As of April 1, 2025, before the uncertainty around the U.S. tariff activity, American consumers seemed to be pairing back their spending.

The retail industry has been evolving and continues to evolve. The risks from e-commerce continue as do the risks associated with tariffs, inflation and changing consumer preferences.

What is clear is that Americans like to shop, e-commerce remains a formidable force, and brick-and-mortar retail is not going away.

Real estate transaction volumes are slowly improving post-pandemic, providing clarity on pricing. When and by how much retail valuations improve (e.g., when and by how much cap rates drop) will be dependent upon a range of economic forces, not the least of which will be the timing of further Fed rate cuts, if any.

The "retail apocalypse" looked scary. The reality is that the retail real estate industry along with its retail tenants have evolved. The industry is sustainable.



Harold Bordwin is co-president and principal at Keen Summit Capital Partners LLC, where he is responsible for all aspects of business development and execution. Bordwin focuses on developing and implementing strategic real estate and corporate finance plans for his clients. Those plans involve real estate analysis, real estate acquisitions and dispositions, lease modifications and terminations, and corporate finance and capital market services.

Chris Katchadurian is an associate at Keen-Summit Capital Partners. Since January 2023, he has been aiding in multiple real estate disposition and lease restructuring projects. Katchadurian is focused on gaining experience and assisting with real estate due diligence and valuation, developing and implementing marketing plans, interacting with prospective buyers, and soliciting offers. In addition, he has also assisted with lease abstracts, market analysis, and lease negotiations.

1 For a running list of major retail bankruptcies since 2017, see "The running list of major retail bankruptcies."

2 Colliers, "The Retail Shift: Exploring Historical Changes in Store Footprints."

3 NAR, Commercial Real Estate Market Insights February 2024 PDF.

4 https://www.wsj.com/real-estate/commercial/retail-is-fashionable-with-property-investors-again-but-only-the-unflashy-kind-58aedd3e.

5 The retail apocalypse never happened & C&W 4Q2024 Retail Report.

6 Cushman & Wakefield, "US Shopping Center Marketbeat Report."

7 Globest, "Retail Space Per Capita Hits a Multi-Decade Low."

8 CRE Daily, "US Retail Vacancy Rate Hits Lowest Level in 20 Years."

9 Colliers, "US Retail Market Statistics Q3 2024."

10 Simon Property Group, "Q4 2024 Financial Results."

11 See, for example, https://www.latimes.com/business/story/2025-03-12/dentists-are-moving-into-the-mall.

12 Federal Reserve Bank of San Francisco, "Pandemic Savings Are Gone—What's Next for US Consumers?"

13 U.S. Bureau Of Labor Statistics, Unemployment Rate as of December 2024.

14 U.S. Bureau of Labor Statistics.

15 FRED, "Shares of gross domestic product: Personal consumption expenditures."

16 The Lane Report, "2024 Retail Sales Set Records for Holiday Season."

17 New York Fed, "Household Debt and Credit Report."

18 Consumer Affairs, "Credit-card debt hit record $1.21 trillion after unusual holiday unptick in 2024."

19 New York Fed, "Credit Card Delinquency Report, Q3 2024."

20 WSJ, "Things are quiet in consumer credit. Too quiet."

21 Jinjoo Lee, Consumer Angst Is Striking All Income Levels, WSJ March 12, 2025.

22 New York Times, "Market Chaos Could Inflict Its Own Damage."

23 S&P Global, "Luxury Brands Expanding in US Malls."

24 McKinsey, "Reimagining the Role of Physical Stores in an Omnichannel Distribution Network."

25 CBRE Predicts Cap Rate Compression in 2025.

26 Financial Times, "Boom in US retail real estate defies prediction of e-commerce apocalypse."

27 InStoreMag, "15,000 Store Closures Expected in 2025."

28 Bloomberg, "Dollar Tree Considering Sale, Spinoff of Family Dollar."

29 Bloomberg, "Shein's Growth is Hurting Discount Retailers as Store Closures Surge."