

Doing More With Less: Average Retail Lease Size Continues To Decline

Big-Box Retail Missing Out on Store Leasing Resurgence Driven by Demand for Smaller Spaces



Retailers with smaller stores such as Starbucks have dominated leasing activity so far this year, expressing a clear preference for "tall" over "venti" when it comes to store sizes. (Getty Images)

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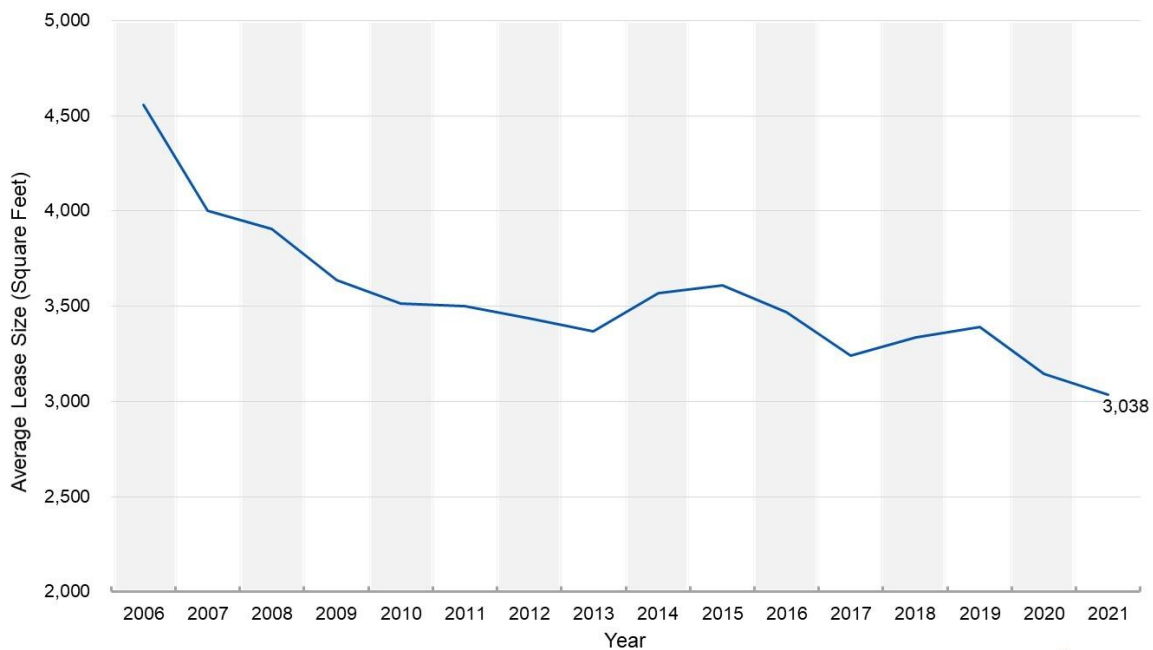
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The retail property sector is having a bit of a resurgence in 2021. Store openings are at their highest level in five years, and more retail space has been leased over the first three quarters of this year than in all of 2020.

Also, the more than 205 million square feet of retail space leased during the first three quarters of 2021 is the highest total recorded during the same period in the past three years.

The rebound in leasing activity is occurring in spite of a continued decline in the average size of retail leases, which has fallen to a new all-time low of just 3,038 square feet. This continues a multidecade trend in the retail sector, with the average lease size falling by more than 30% over the past 15 years.

Average Retail Lease Size Drops to New Low



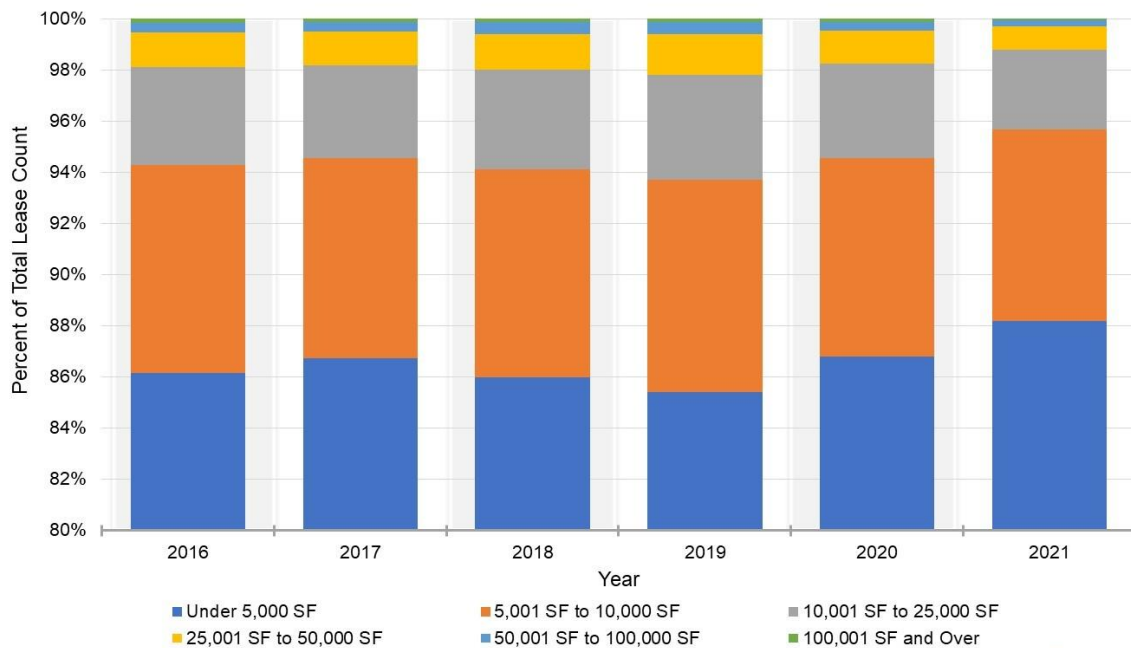
Source: CoStar Group, as of 11/10/2021



The decline in the average amount of store space leased by retailers is reflected in the increased demand for smaller spaces and a pullback in demand for larger ones.

Over 73,300 retail leases were signed in the first 10 months of 2021, more than were signed in 2020 and on pace to eclipse the total number of retail leases signed in 2019. A historically high 88% of retail leases signed in 2021 were for spaces of 5,000 square feet or less. These leases combined to account for approximately 120 million square feet of space through the first 10 months of the year.

Smaller Retail Boxes Attracting Greater Share of Leasing



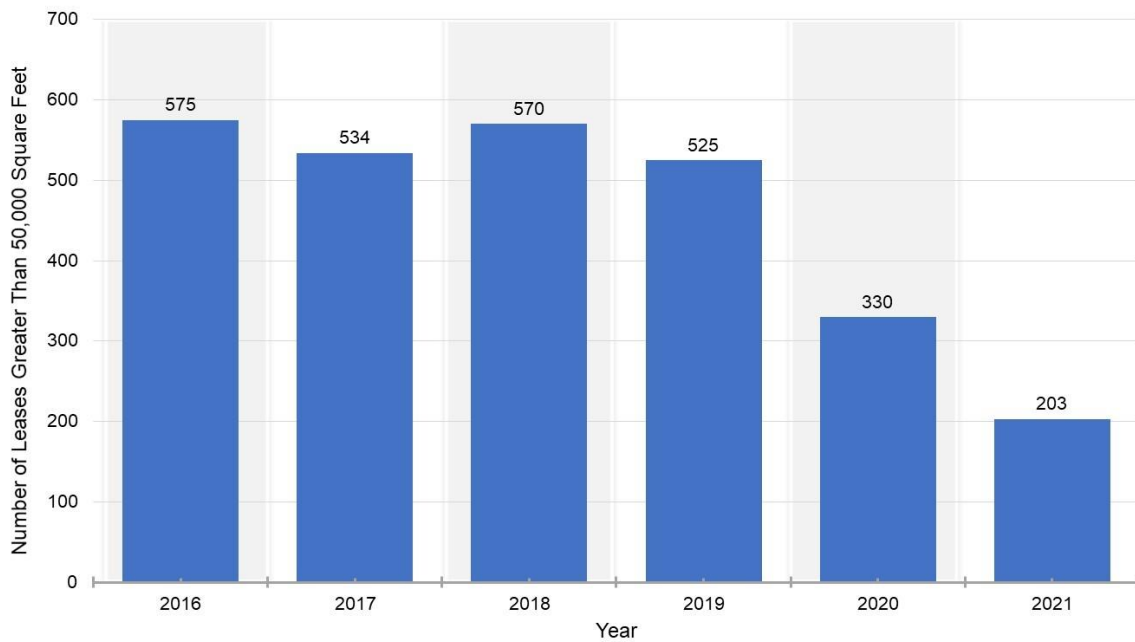
Source: CoStar Group, as of 11/10/2021



Tenants driving the rebound in demand for smaller spaces have been Starbucks, cellular retailers T-Mobile and AT&T, and quick-service restaurants such as Pizza Hut, Taco Bell and KFC.

At the same time, the number of retail leases signed for stores measuring 50,000 square feet or more dropped to an all-time low through the first 10 months of the year. Just 203 retail leases exceeding 50,000 square feet have been signed during this period in 2021 compared to 330 in 2020. The annual average had been 551 from 2016 to 2019. Retailers who are still active in the market for 50,000-plus-square-foot boxes have included Target with nine leases, At Home and Hobby Lobby both with eight, and numerous fitness and experiential tenants.

Demand Drops for Larger Retail Boxes



Source: CoStar Group, as of 11/10/2021



While strong consumer spending has driven a resurgent retail environment in 2021, the bifurcated nature of the recovery in demand across store sizes is a stark reminder that retailer preferences will continue to drive a wider range of outcomes for retail properties during the recovery. It appears the current trend of retailers doing more with less will continue to benefit smaller, in-line spaces, while it is highly likely that demand for larger retail boxes will continue to underwhelm.