Retail rents post slowest growth in more than a decade

While all US regions see slower gains, the South remains strongest

By Brandon Svec
CoStar Analytics
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Retail asking rents across the U.S. rose to a record last quarter, but the pace of rent growth has downshifted meaningfully, falling to its slowest in more than a decade.

The slowdown follows a multiyear stretch of outperformance for the retail sector and reflects a broader cooling in inflation and increased retail sales.

Retail asking rents across the U.S. increased by an average of 1.9% over the past four quarters to set a new nominal high average of $25.69 per square foot. Retail rents tend to follow retail sales with a slight lag, and the current moderation appears more cyclical than structural. After years of strong rent gains, the retail market is recalibrating to a slower pace of consumer spending and a more normalized inflation environment.

Regionally, retail markets in the southern U.S. remain the standout. Among those with at least 100 million square feet of retail space, retail markets in the south posted average rent growth of 2.3% over the past year, more than double the 1.1% growth recorded in the Northeast and well ahead of the 0.9% growth rate for the Midwest and 0.5% for the West.

All regions have seen year-over-year rent growth decline to roughly half their five-year averages, underscoring the breadth of the slowdown.

Yet, even with the recent deceleration, the cumulative gains over the past five years remain substantial. Since the end of 2019, average asking rents for retail space in Southern U.S. markets have surged by 28%, far outpacing the average 17% increase seen in both the West and Midwest, and more than double the 12% increase in the Northeast.

The South's outperformance in retail rent growth is rooted in stronger demographic and sales trends. Population growth, migration patterns, and rising incomes have translated into greater buying power, which in turn supports higher rents.

However, while the growth rate has been impressive, nominal rent levels still trail those in denser, higher-income regions. Average asking rents for retail space in the Northeast and West stand at $31.75 per square foot, more than 15% above Southern market averages and a striking 65% higher than those in the Midwest.

This divergence highlights a key dynamic in retail real estate: rent levels are highest in areas with greater density and income levels, while rent growth is strongest in regions experiencing rapid gains in buying power. It's a nuanced story, but one that continues to favor Southern U.S. retail markets for investors seeking rent growth.

Looking ahead, the retail rent environment is likely to remain stable but subdued. With inflation and retail sales growth expected to stay in check, rent growth in the retail sector will depend increasingly on local market trends, such as demographics, income levels and tenant demand. In that context, Southern markets appear well-positioned to continue to outperform, even if the pace of rent growth continues to moderate nationally.