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COSTAR INSIGHT

When it comes to leasing, retailers still favor smaller spaces

Pullback in 'big box' leasing weighs on average deal size



A new single-tenant retail location leased by Starbucks at 7901 Watson Road in St. Louis, Missouri. Starbucks led the nation in small-format retail leasing over the past year. (CoStar)

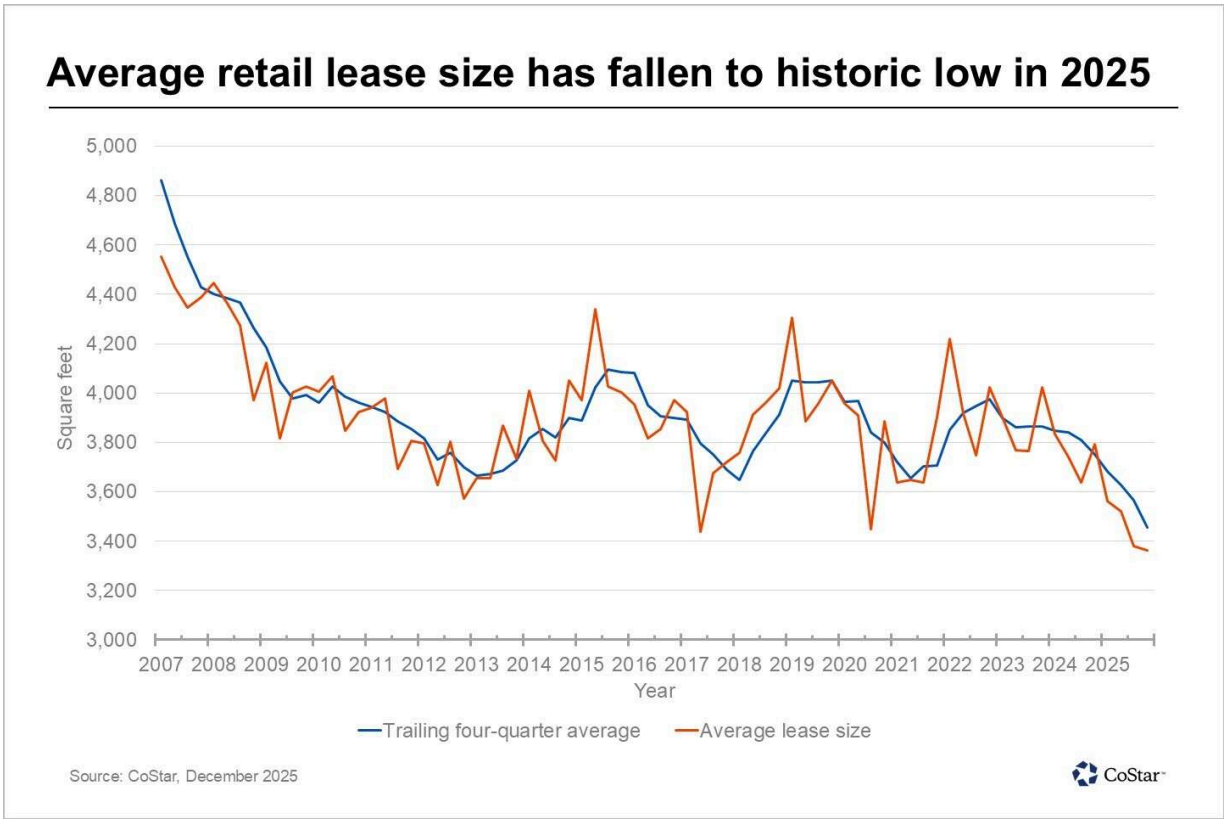
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CoStar Analytics

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The retail leasing landscape is continuing a long-term transformation in response to changing consumer behavior.

This includes both a shift in the types of retailers leasing space, with recent activity dominated by service and food and beverage-based tenants, as well as how retailers, especially those in the apparel and general merchandise categories, utilize their leased space.

The net result has been smaller average retail lease sizes, as demand for smaller, more efficient spaces has increased while demand for larger boxes exceeding 50,000 square feet has decreased.

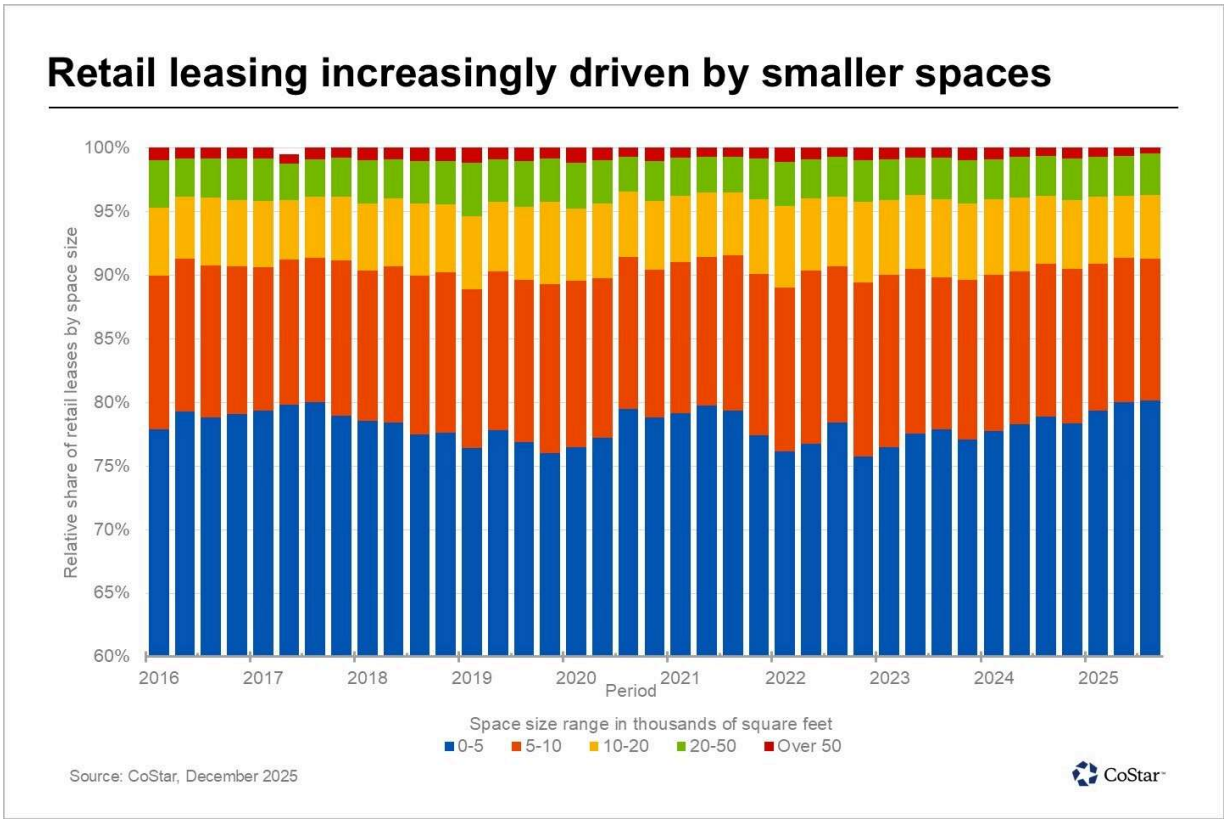


In total, nearly 53,000 retail leases encompassing over 206 million square feet of retail space were signed over the prior four quarters through the third quarter of this year. The totals are expected to rise as retail lease deals completed near the end of the third quarter are fully accounted for, but as it stands today, the average retail lease

executed over the prior four quarters has dropped below 3,500 square feet for the first time on record.

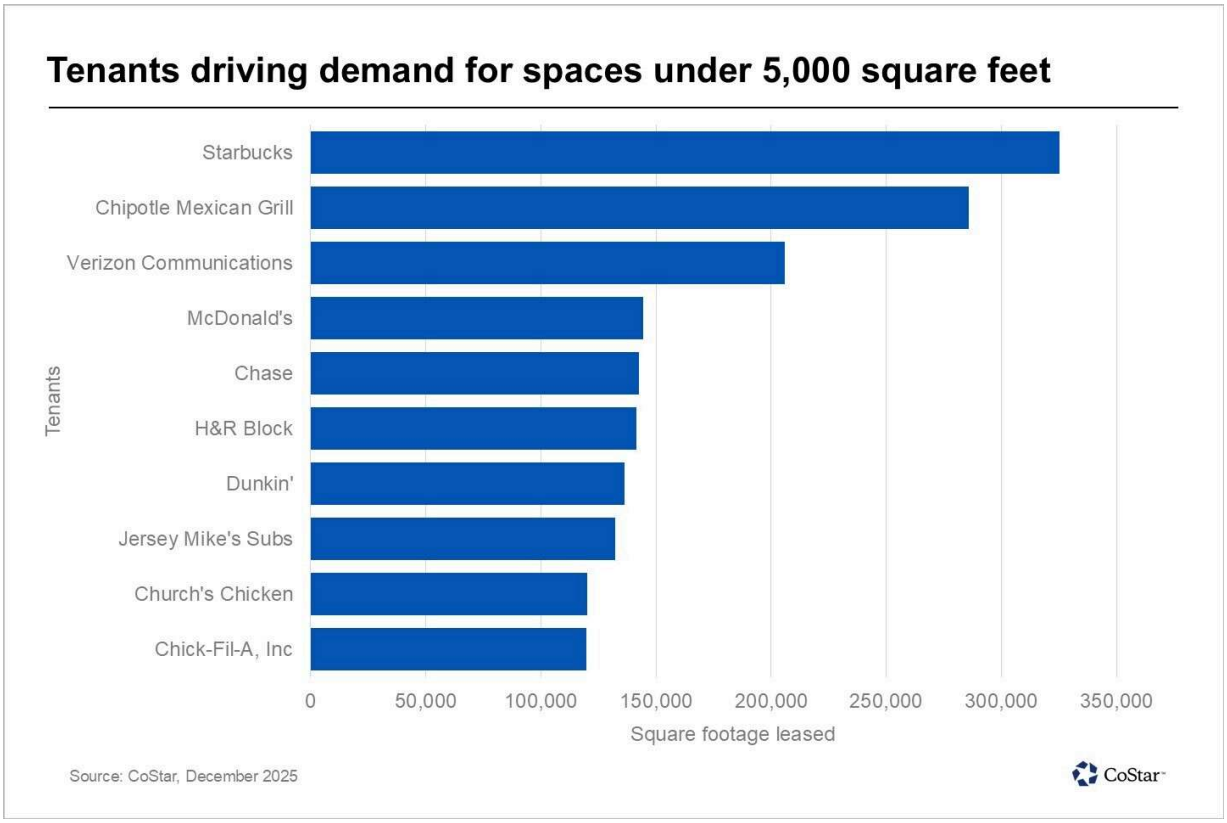
Retail leasing activity has historically been heavily concentrated in smaller spaces, but this trend has intensified even further in recent years, as retailers have pulled back from leasing so-called 'big box' spaces once heavily favored by department stores. Retail spaces under 5,000 square feet accounted for approximately 80% of all retail lease transactions, representing just over 51% of total leased square footage.

Breaking it down further, leases under 2,500 square feet accounted for approximately 44% of all retail lease transactions and 29% of the total square footage leased, while the 2,500–5,000 square foot range contributed another 36% of transactions and 22% of square footage. In contrast, retail spaces over 20,000 square feet comprised less than 5% of leases signed over the past four quarters and just 11% of total leased square footage, underscoring the ongoing shift toward smaller, more flexible retail formats.



The surge in leasing smaller retail spaces is being driven by a diverse mix of tenants, with food and beverage concepts leading the way. Notably, brands such as Starbucks, Chipotle Mexican Grill, Chick-fil-A, Jersey Mike's Subs, Dunkin' and McDonald's have been among the most active in securing retail spaces under 5,000 square feet. These tenants are capitalizing on evolving consumer preferences for convenience, speed, and experiential dining, often favoring drive-thru and pick-up oriented formats.

Beyond food, service-oriented tenants are also prominent in the small box segment. H&R Block and Chase exemplify the demand from financial and professional services, while Verizon Communications highlights the ongoing need for retail presence among telecom providers. This trend reflects a broader shift toward essential services and daily needs since COVID-19, with retailers increasingly seeking highly visible, accessible locations in both urban and suburban markets.



While strong consumer spending has helped to drive a resurgent physical retail environment coming out of the pandemic, the bifurcated nature of the recovery in demand across retail box sizes serves as a stark reminder that shifting consumer preferences will continue to result in a wide range of outcomes. For retail properties, agility and adaptability are paramount and bigger spaces are rarely better in today's retail leasing market.

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