City Retail 2024

Urban retail benefits as tourists return

JLL SEE A BRIGHTER WAY

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Key findings – Consumer spending drives urban retail growth

1

Consumer spending growth and the return of international and domestic tourism have driven prime urban retail demand, with foot traffic recovering to pre-pandemic levels in half of the prime corridors surveyed.

2

Apparel retailers dominated prime corridor leasing this year, with athleisure tenants expanding considerably, combining to **account for nearly half (48%) of all prime corridor leasing activity.**

3

Luxury retailers remain a major player in the prime urban retail story, with almost every corridor seeing strong absorption from luxury apparel and jewelry brands, as well as luxury boutiques.

4

Green shoots from other real estate property types contribute to a positive outlook for urban retail, characterized by **steadily increasing office attendance and a return to pre-pandemic hotel occupancy levels.**

What is a prime urban corridor?

A prime urban corridor is a nationally recognized shopping district that is noted for its mix of high-street, national, and international tenants. Typically named for the most notable retail street within the corridor, these shopping districts have boundaries that were carefully drawn to include the most prominent retail spaces, as well as current and future points of interest.

Prime urban corridors emerge organically and are not the product of a single master developer. We've identified and defined such North American corridors for this report.

Retailers bet big on cities

In 2023, the trajectory of prime urban retail leasing has been closely tied to the performance of other property types. Office populations have surpassed 50% across all major metros, hotel occupancy is at pre-pandemic levels, and residential population outflows from major cities have stabilized.

Prime retail corridors around the country are benefitting from solid retail fundamentals, with low vacancy and low supply contributing to sustained year-over-year rent growth. Sunbelt markets like Miami continue to outperform, while cities like New York and Chicago benefit from the return of international tourism.

Prime corridor leasing has been dominated by apparel tenants in the luxury and athleisure space, as well as food users catering to consumers' desire for experiences. Looking ahead, experience spending is sure to dictate the demand profile in retail corridors, especially as supply constraints present a challenge to overall leasing velocity.

Economic indicators paint a healthy picture of urban retail

Prime corridor activity bolstered by foot traffic recovery

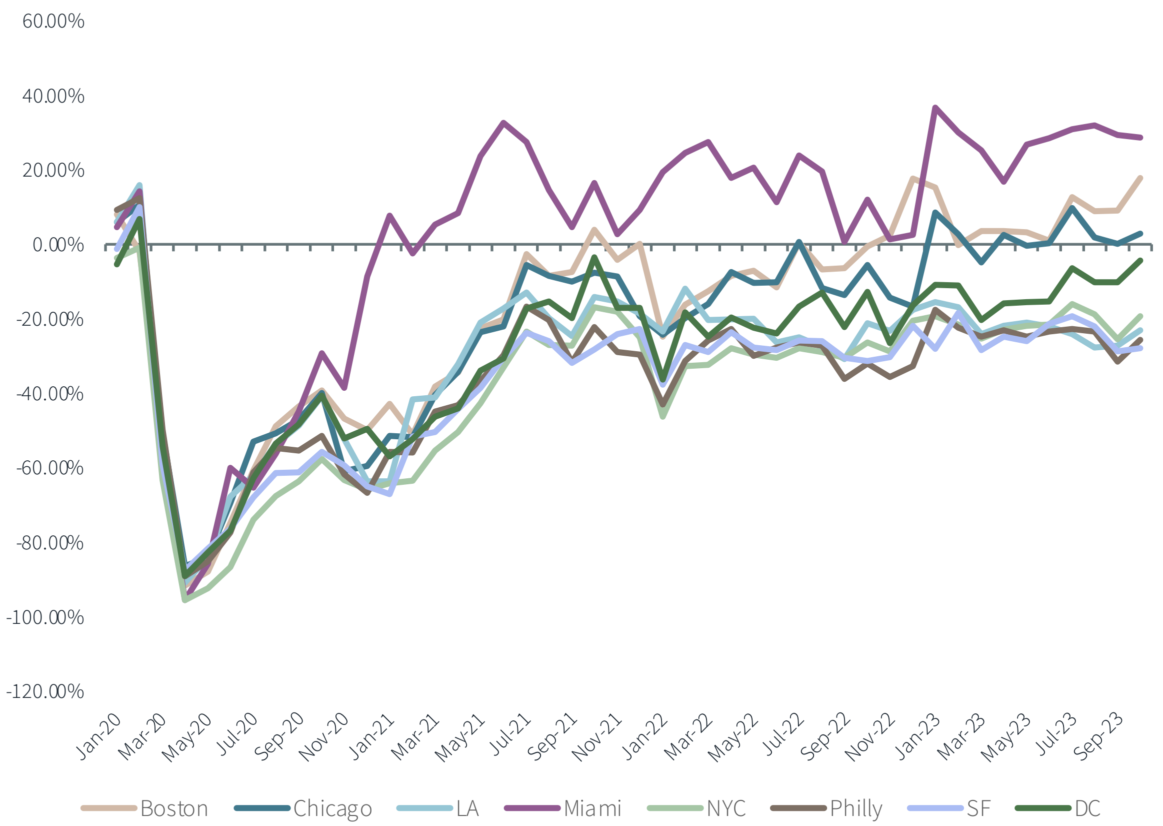
The return of foot traffic to urban areas has driven the positive activity in prime corridors this year. The pandemic saw foot traffic in almost every city reduce by nearly 100%, as mandated store closures and occupancy restrictions made it almost impossible for consumers to shop in person.

Upon reopening the economy, foot traffic to physical stores rebounded almost immediately, underscoring consumers' persistent desire for in-person shopping experiences. Even still, urban retail destinations lagged compared to suburban destinations, mimicking migration patterns that emerged during the lockdown.

Thanks to the combination of increased tourism, stabilized population outflows, and the gradual return of office workers to the CBD, half of the prime urban cities highlighted in this report have seen footfall completely recover as of October 2023.

Miami's lenient COVID restrictions led to its full recovery by early 2021, but pre-pandemic levels of foot traffic have also been observed this year in Chicago, Boston, and Washington D.C.

Figure no. 1 – Prime corridor foot traffic change since 2020



International tourism provides a boon

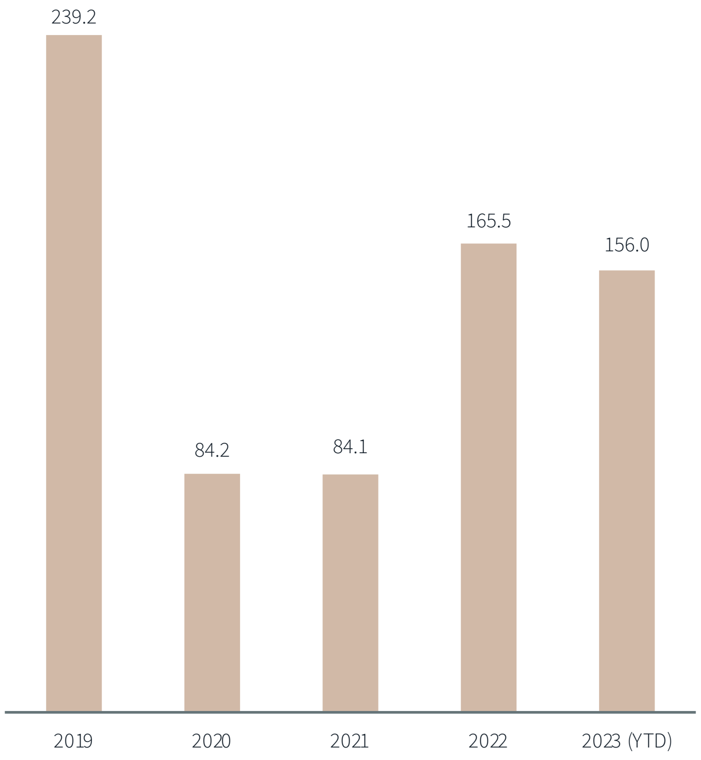
Now that travel restrictions have been completely lifted, urban centers in the U.S. have benefited from a return of both international and domestic tourism.

Boston's Logan Airport has seen international passenger levels up to 27% higher THAN pre-COVID levels. Meanwhile New York is expected to welcome 63.2 million visitors this year, just shy of its 2019 mark of 66.6 million, which the city is forecast to exceed next year.

So far this year, visitors to the United States have spent a combined $156 billion as of September, a 31.6% increase over the same period last year, and a 183.7% increase over 2021.

Figure no. 2

Foreign tourism expenditures in the U.S. ($ billion)



Source: JLL Research, International Trade Administration

Consumers travel for new experiences

Consumer spending continues to grow albeit at a slowing pace, surpassing $705 billion in September. Spending patterns prioritize experiences, reflecting the post-pandemic shift in spending from goods to services.

Desire for experiences has been a major driver of consumer behavior, primarily in the forms of dining out and seeing shows. Performing arts spending grew more than 37.2% over last year, and urban retail benefitted from music acts like Taylor Swift and Beyonce, whose nationwide tours spurred domestic tourism and encouraged outsized hospitality demand in each of the cities they visited.

These concerts had a positive impact on the urban retail landscape: Morgan Stanley estimates that consumers spent a combined $5.4 billion to see the two acts this summer, averaging $1,650 on tickets, flights, hotels, and food.

Figure no. 3 – Sales rise as consumers remain resilient despite inflation ($ millions)

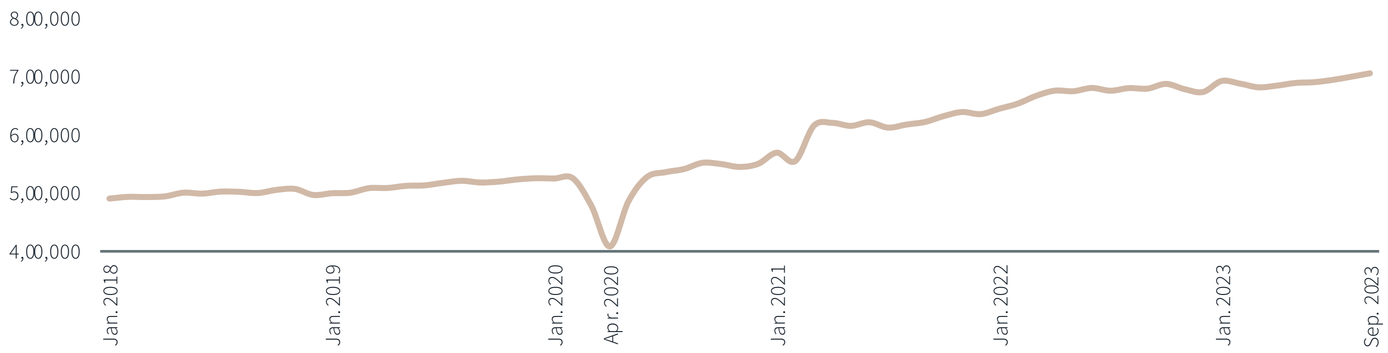
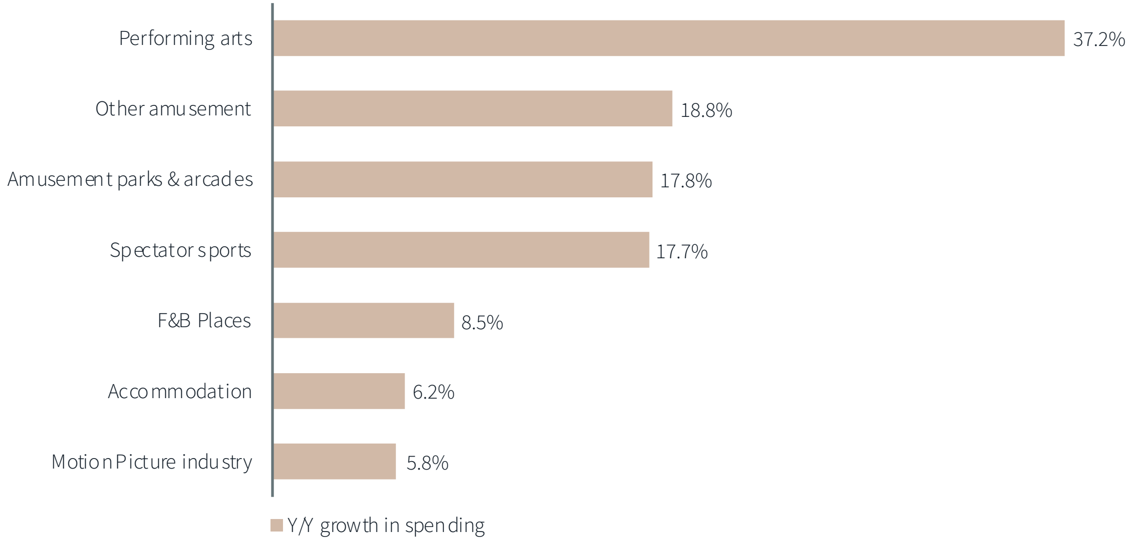


Figure no. 4 – Prime corridors benefit from growth in spending on experiences



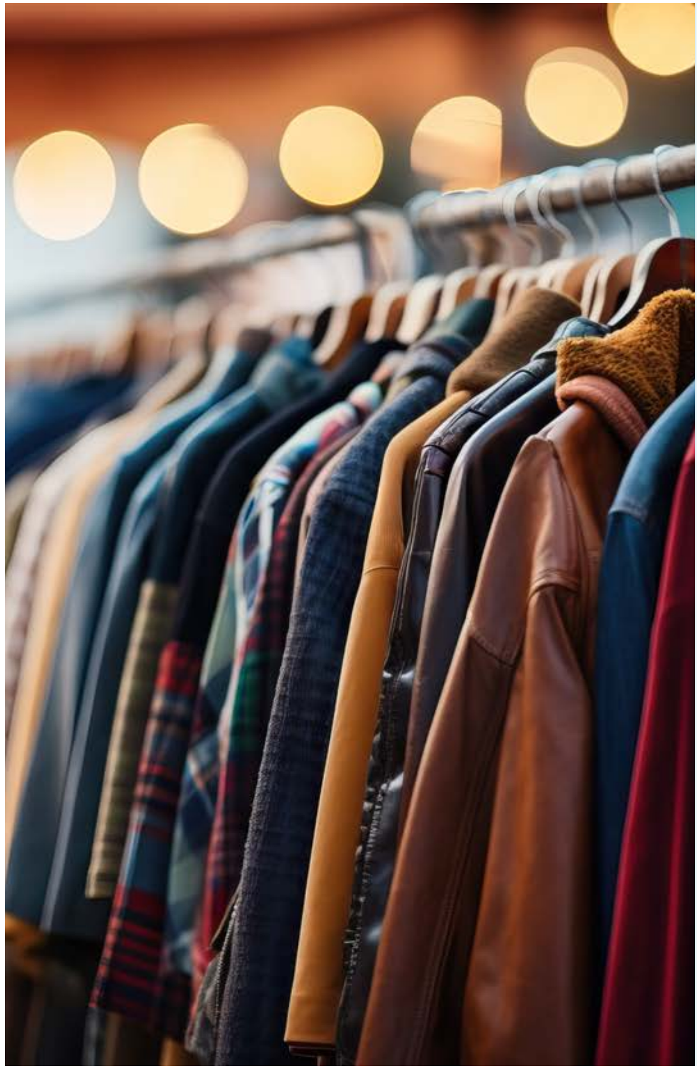
Source: Census Bureau

All indicators point to the strength of prime urban retail in 2023.

As rebounds in international tourism and the gradual return of office workers augmented foot traffic around these prime retail corridors, both tenants and landlords have identified an opportunity to cater to their consumer bases with new retail experiences.

Luxury and athleisure apparel retailers have dominated the prime urban leasing scene. Food users were active as well, with consumers' pent-up demand from the pandemic driving their desire for in-person dining. Home furnishings retailers were surprisingly active as well, despite the category not seeing sizable sales gains over last year.

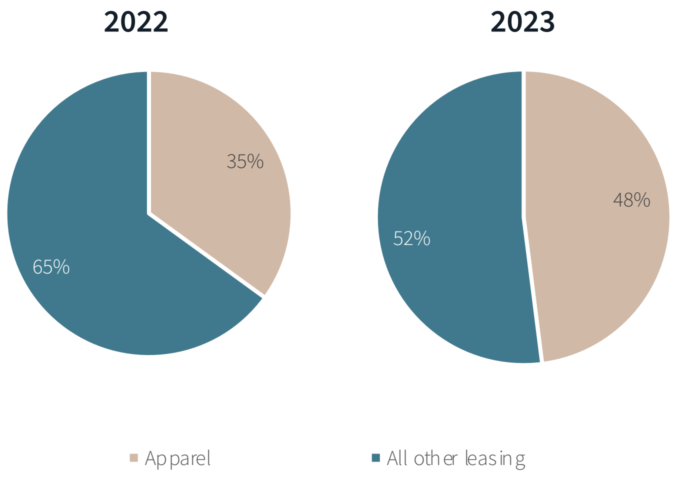
Luxury and athleisure apparel tenants follow the money



Apparel retailers are determined to meet us in the city

Figure no. 5

Prime corridor apparel leases
(% of overall leases)



The economy has fully re-opened and consumers are eager to get back to in-person experiences, whether that IS at a restaurant, at a music festival, or at the gym. This has prompted a noticeable uptick in apparel leasing in prime corridors.

Apparel retailers comprised a hefty 48% of overall prime corridor leasing this year, up from 35% in 2022. Athleisure retailers comprised 21% of new apparel leases, with their popularity rising in tandem with the emergence of hybrid and remote work.

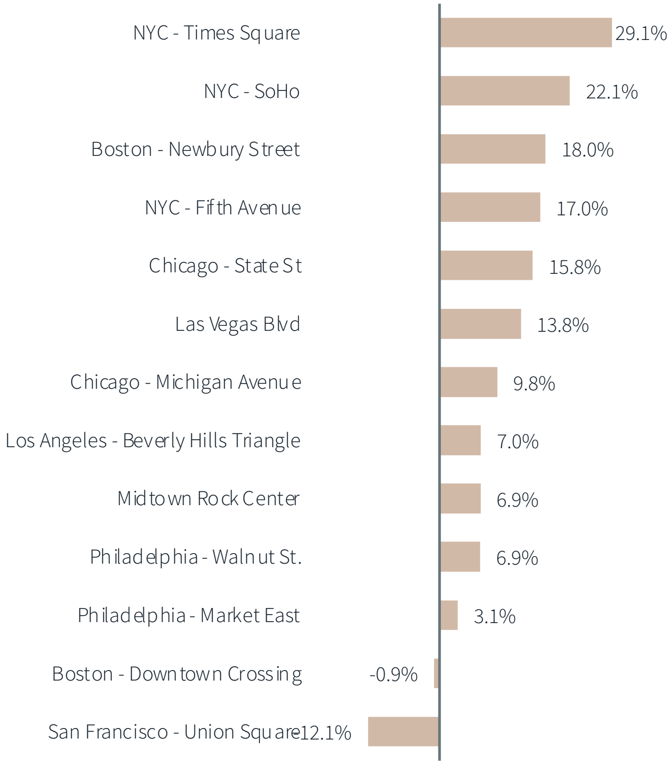
Most active in the space have been category leaders like Lululemon, which is opening new stores this year in New York's Union Square and Bloor Street in Toronto; and ALO Yoga, which made its first entry into the D.C. market with a new outpost on M Street in Georgetown.

Vuori was particularly active as well, leasing three new locations in Georgetown, on Madison Avenue in New York, and in the Marina in San Francisco, while running shoe brand Hoka also opened two new stores this year, on Lincoln Road in Miami and on New York's Fifth Avenue.

Luxury retailers flock to prime corridors

Figure no. 6

Prime urban corridors see sustained foot traffic growth (July 2023)



Source: JLL Research, Placer.ai

The luxury category has been among the most declarative in its embrace of physical retail. As arbiters of retail experience, these tenants know full well the value of an in-store offering that cannot be replicated at home.

The gradual return of tourists and hybrid office workers resulted in year-over-year gains in foot traffic, providing a readily available consumer base for prime retail corridors like Times Square and Michigan Avenue, which are located close to central business districts. This contributed to 45% of overall luxury leasing activity this year occurring in prime corridors.

Leasing activity this year came from the likes of Burberry, which leased two new stores on Fifth Avenue in New York and on Bloor Street in Toronto. Bottega Veneta and Cartier both gravitated to Chicago's Gold Coast for their new stores, while Dolce & Gabbana and Chloe found prime space to lease on Madison Avenue in New York. Longchamp and Anine Bing opted to open new stores this year on Newbury Street in Boston.

Luxury boutiques grow in popularity

In the wake of bankruptcies and store closures from retailers like Barney's and Neiman Marcus, luxury consumers have demonstrated a persistent appetite for a thoughtful curation of products from their favorite high fashion brands.

As a result, luxury boutiques have emerged as a growing category within the luxury space, composing 12% of new luxury leases in the last year.

It's clear these retailers centered their expansion plans around the prime corridors, as many opened new locations in multiple corridors across cities. Kirna Zabete, noted fashion curator and stylist, opened four boutiques last year, including two in New York and one in Miami's Design District.

Around this time, Kith also opened a store in the Design District, to complement its new flagship on Rodeo Drive in Los Angeles.

Figure no. 7

New luxury boutique leases in prime corridors

Tenant	City	Prime corridor
Elyse Walker	New York	Madison Avenue
Kirna Zabete	Miami	Design District
Kirna Zabete	New York	Madison Avenue
Kirna Zabete	New York	SoHo
Kith	Miami	Design District
Kith	Los Angeles	Rodeo Drive
Kitson	Los Angeles	Beverly Hills Triangle
Opal & Oak	Boston	Newbury Street

Source: JLL Research

Jewellers and food users hold their own

The impact of occasion dressing didn't stop with apparel, as jewellery and accessories retailers saw significant activity as well to comprise 11% of prime corridor leasing.

Notably active jewellery retailers include Breitling, which opened two locations on Newbury Street in Boston and Union Square in San Francisco; and Mejuri, which went on a tear last year opening four stores in Boston, Chicago, D.C., and San Francisco. The digitally native jewellery brand has tripled its store count in the last year, now operating 28 stores across the United States, Canada, and the U.K.

Food uses expanded considerably as well, accounting for roughly 15% of total leasing velocity. These operators were eager to capitalize on consumers' desire to dine out, which saw food & beverage store sales grow by 8% over last year.

Figure no. 8 – Notable prime corridor move-ins

Tenant	Prime corridor	City	Size	Category
Anine Bing	Newbury	Boston	1,906	Apparel
Alamo Drafthouse	Seaport	Boston	15,000	Theater
Allbirds	Fulton Market	Chicago	3,975	Apparel
Bottega Veneta	Gold Coast	Chicago	5,000	Apparel
Aritzia	Michigan Avenue	Chicago	49,198	Apparel
Supreme	Wicker Park	Chicago	1,800	Apparel
Givenchy	Beverly Hills Triangle	Los Angeles	4,437	Apparel
Kitson	Beverly Hills Triangle	Los Angeles	5,253	Apparel
Restoration Hardware	Melrose	Los Angeles	26,260	Home furnishings
Ralph Lauren	Design District	Miami	2,000	Apparel
Hoka	Lincoln Road	Miami	3,128	Apparel
Lacoste	Fifth Avenue	New York	18,000	Apparel
Chloe	Madison Avenue	New York	2,000	Apparel
Vuori	Madison Avenue	New York	3,689	Apparel

Figure no. 8 (cont'd) – Notable prime corridor move-ins

Tenant	Corridor	City	Size	Category
Aesop	Meatpacking District	New York	1,697	Cosmetics
Abercrombie & Fitch	SoHo	New York	9,063	Apparel
Cotton On	SoHo	New York	13,900	Apparel
Thuma	SoHo	New York	6,664	Home furnishings
Mermaid Inn	Times Square	New York	17,000	Food user
Party City	Union Square	New York	10,600	Specialty
Banana Republic	Union Square	San Francisco	8,505	Apparel
Levi's	Union Square	San Francisco	22,000	Apparel
Burberry	Bloor Street	Toronto	6,125	Apparel
Van Cleef & Arpels	Bloor Street	Toronto	2,500	Jewelry
Paris Saint Germain	Queen Street West	Toronto	2,069	Sporting goods
Arcteryx	West 4th Street	Vancouver	4,504	Apparel
ALO Yoga	Georgetown	Washington, D.C.	9,900	Apparel
Showfields	Georgetown	Washington, D.C.	22,299	Specialty

Toronto and Montreal continue to recover from the lasting impact of COVID lockdowns

Canada's retail story has been centered around the West versus the East. While the prime corridors continue to see activity from a wide array of retailers, Vancouver has rebounded faster than Toronto and Montreal.

Canadian retailers, especially in Toronto and Montreal, were heavily impacted by extensive COVID-related measures including lockdowns, curfews, strict travel restrictions, and temporary closures of nonessential businesses, all of which lasted until September 2022. The nature of these restrictions encouraged some consumers to shift some of their shopping patterns online, resulting in a slower recovery in retail demand.

With that said, several factors indicate that these markets will rebound imminently. Vancouver has seen tourism levels recover handily even without the full return of Chinese tourists, prompting new hotel development to meet that demand. Toronto leads North America in terms of number of cranes, with major residential redevelopments underway around Bloor Street, bringing more consumers and retail space to the corridor. And Saint-Catherine Street in Montreal is undergoing a complete reimagining, intended to bring ample pedestrian traffic to the corridor.

Demand shifts to new corridors

The pandemic exacerbated differences between retail corridors within the same city. Prime corridors with nearby residential populations recovered much faster, attracting retailer interest as they sought to relocate existing stores and open new ones.

In Chicago, luxury retailers have left Michigan Avenue for the Gold Coast, seeking to capitalize on the affluent residential base and strong existing luxury co-tenancy in the area.

A similar story has been seen in New York, where retailers who had opted for SoHo in recent years have set their sights on an old favorite with ample available space – Madison Avenue.

Madison Avenue draws retailer interest back uptown

Many luxury retailers looking to open in New York City after the pandemic opted for SoHo, thanks to the steady foot traffic provided by nearby residential populations. On the other hand, Madison Avenue, once a nexus for these brands, struggled as office and tourism populations made their slow return to midtown.

The gradual uptick in presence for both of those groups, combined with the resurgence of the affluent Upper East Side shopper has reignited interest in Madison Avenue, with the stretch between East 59th Street and East 72nd Street accounting for 43% of new luxury leases in New York City.

Punctuated by the opening of Hermes' 45,000 s.f. flagship at the corner of 63rd Street, the corridor also saw new leases last year from Valentino, Lanvin, and Van Cleef & Arpels, among others.

Luxury finds a new home in Chicago's flourishing Gold Coast

Michigan Avenue has historically been the premier retail destination in Chicago, drawing tourists from all over the world. However, with the corridor still struggling to bounce back after COVID, some retailers have opted to relocate.

Many of these retailers have found a new home in the Gold Coast. The neighborhood's affluent residential population, concentration of luxury retail, and smaller store formats has enticed retailers to gravitate away from Michigan Avenue.

The corridor saw new leases this year from Bottega Veneta and Burdeen Jewlery, which will join the likes of Cartier, Chanel, and Van Cleef & Arpels in the ranks of retailers who made the move from Michigan Avenue to the Gold Coast.

The Gold Coast has become a popular choice among retailers looking to expand, with Glossier opening its first Chicago store in April in the corridor, alongside Ksubi's newly debuted fourth U.S. location.

Green shoots across property sectors encourage urban retail performance

01 Retail fundamentals remain solid across the country

The story for retail real estate over the past year has been a positive one: strong absorption from 2021 and 2022, combined with decreased supply due to record-low construction activity, has resulted in sustained rent growth and historically low vacancy rates across the country.

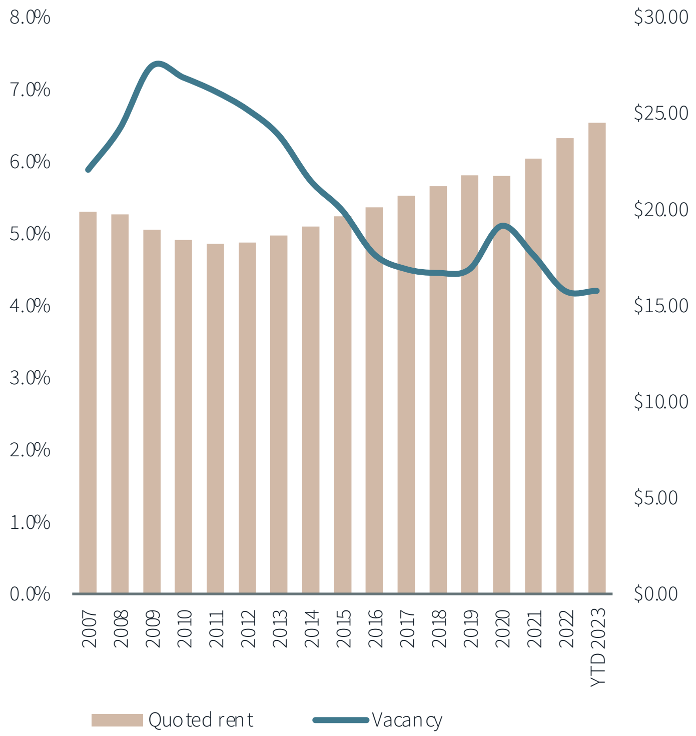
E-commerce penetration has normalized at around 15%, while consumer spending continues to rise, with September's spending total of more than $705 billion representing a 4.1% increase year-over-year and the sixth consecutive month of spending growth.

Inflation remains a concern, but has mostly levelled out (3.7% in October, down from a high of 9.0% in June of 2022), allowing consumers to exercise their spending power.

The prime retail corridors have benefitted from this combination of robust consumer spending and low retail vacancy, accounting for a combined 3.3% growth in asking rents over the previous year.

Figure no. 9

Retail vacancy reaches historic low of 4.2%



Source: CoStar, JLL Research

02
Return to office momentum grows incrementally

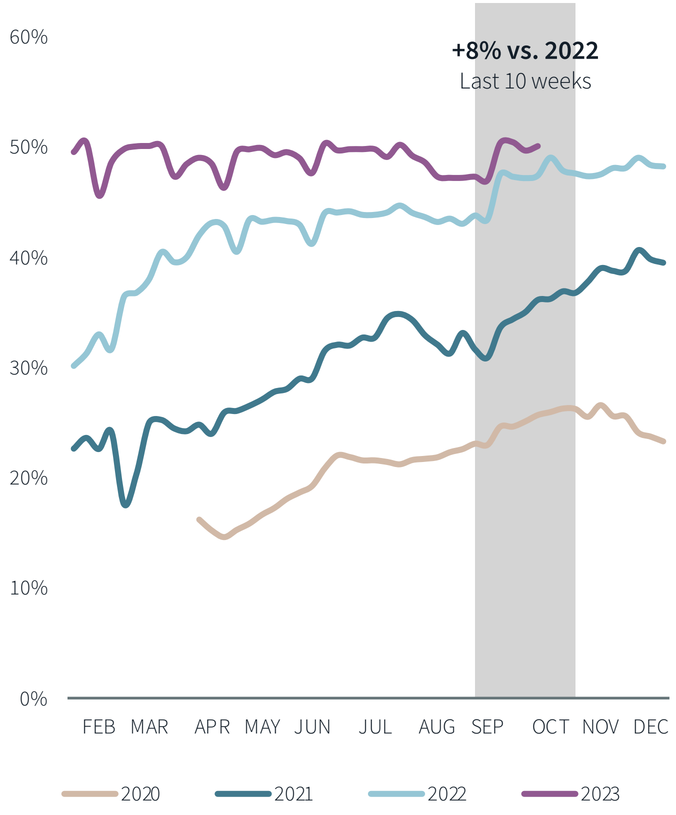
Many prime retail corridors are located proximal to their city's central business districts, and as such have historically drawn part of their consumer base from office populations.

While hybrid work models encourage a new normal regarding office attendance, the sector continues to see progress, with the 10 weeks following Labor Day recording an 8% YoY increase in attendance. Employers have begun issuing stronger mandates, subjecting some 3.2 million employees to new RTO policies.

Although gross leasing for office space is down, active space requirements are up nearly 3% in gateway cities like New York, Chicago, and Miami, underscoring the vibrant activity of these city centers and their nearby prime retail corridors.

Figure no. 10

Office attendance as a share of pre-pandemic weekly average



Source: JLL Research, Kastle Systems

03

Urban hotel demand rebounds, buoyed by increased tourism

After suffering greatly during the pandemic due halted travel and closed borders across the world, the hotel sector has seen a rebound in performance, particularly in U.S. urban markets.

This rebound has been driven by the resurgence of international arrivals to the U.S., with significant numbers of travellers arriving from the Middle East, Africa, and Europe.

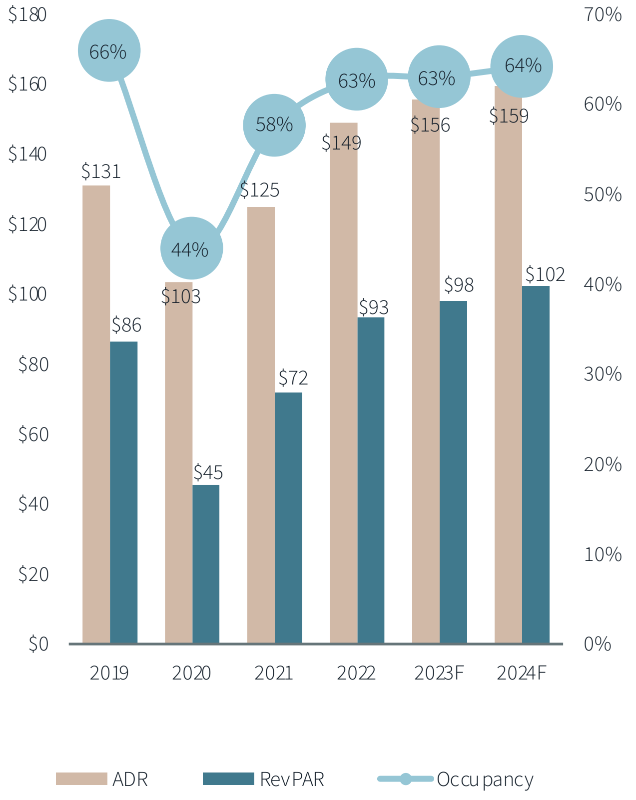
Average daily rate (ADR) and revenue per available room (RevPAR) in the U.S. surpassed 2019 levels by 13% in Q3 of this year. Overall occupancies have almost completely recovered, underpinned by returning group and corporate travel.

Resort markets have been atop the leaderboard, but performance is beginning to slow as other countries reopen borders and foreign travel options abound.

Conversely, return-to-office momentum and increased group and business travel have contributed to the vibrancy and sustained activity seen in urban markets.

Figure no. 11

U.S. Hotel sector performance since 2019



Source: JLL Research, STR/Costar

04

Living sector sees return of strength in Gateway markets

Sunbelt "growth" markets have been the darling of both the retail and living sectors in recent years, due to the outsized population growth these cities – which include Atlanta, Nashville, and Phoenix – experienced following the pandemic.

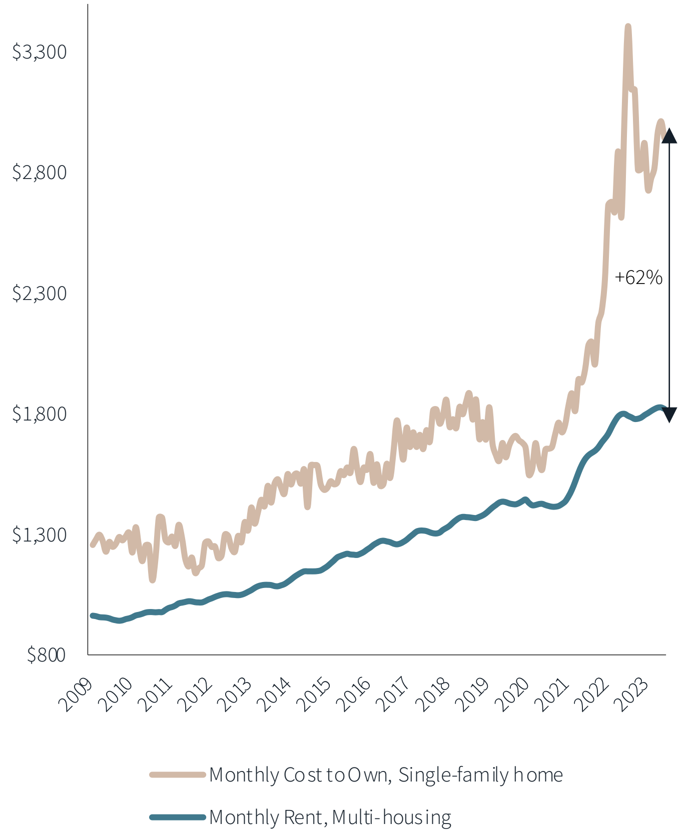
While those markets still see elevated demand, the gradual re-opening of our economy has caused migration trends to begin to normalize, and gateway markets are seeing population outflows begin to stabilize.

As a result, gateway cities like New York, Boston, Chicago, and Miami currently lead the nation in multifamily rent growth.

Further, the current interest rate environment has drastically increased the cost to own, such that owning a single-family home is currently 62% more expensive than renting a unit in a multi-family property. This encourages demand for the mutli-family housing that dominates urban centers, contributing to a broad consumer base in need of proximal retail.

Figure no. 12

Cost to own vs. cost to rent, US average (monthly)



Source: JLL Research, Census Bureau, Freddie Mac, Axiometrics

Appendix: Prime corridor asking rents

Figure no. 13 – Prime corridor asking rents increase 3.0% y-o-y

Market	Prime Retail Corridor	2023 annual prime asking rent	2022 annual prime asking rent	2019 annual prime asking rent	Y-o-3Y rent change
Boston	Newbury Street	$150	$140	$140	7.1%
Boston	Seaport District	$110	$100	$115	-4.3%
Chicago	Fulton Market	$110	$100	$82.50	33.3%
Chicago	Gold Coast	$400	$325	$375	6.7%
Chicago	Michigan Avenue	$350	$150	$300	16.7%
Chicago	Wicker Park	$65	$75	$82.50	-21.2%
Los Angeles	Abbot Kinney	$240	$240	$215	11.6%
Los Angeles	Beverlyy Hills Triangle	$900	$900	$960	-6.3%
Los Angeles	Melrose	$200	$200	$240	-16.7%
Los Angeles	Third Street Promenade	$156	$180	$250	-37.6%
Miami	Design District	$600	$350	$200	200.0%
Miami	Lincoln Road	$175	$225	$265	-34.0%
Montreal	Saint-Catherine Street	C$140	C$185	C$170	-17.6%
Toronto	Bloor Street	C$225	C$225	C$325	-30.8%
Toronto	Queen Street West	C$93	C$93	C$100	-7.0%

Figure no. 13 (cont'd) – Prime corridor asking rents

Market	Prime Retail Corridor	2023 annual prime asking rent	2022 annual prime asking rent	2019 annual prime asking rent	Y-o-3Y rent change
New York	Fifth Avenue Upper	$2,106	$2,280	$2,677	-21.3%
New York	Fifth Avenue Lower	$650	$629	$898	-27.6%
New York	Madison Avenue	$875	$603	$1,009	-13.3%
New York	Meatpacking District	$332	$325	$350	-5.1%
New York	SoHo	$291	$287	$414	-29.7%
New York	Times Square	$1,268	$1,071	$1,632	-22.3%
New York	Union Square	$256	$280	$334	-23.4%
San Francisco	Fillmore	$120	$90	$120	0%
San Francisco	Hayes Valley	$110	$90	$95	15.8%
San Francisco	The Marina	$125	$120	$100	25.0%
San Francisco	Union Square	$300	$450	$500	-40.0%
Vancouver	Robson Street	C$175	C$163	C$225	-22.2%
Vancouver	West 4th Street	C$120	C$120	C$88	36.4%
Washington, DC	14th Street	$115	$115	$100	15.0%
Washington, DC	M Street	$240	$240	$175	37.1%

SEE A BRIGHTER WAY

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