

Marketplace at Tech Center | Newport News, VA

Inland Research Report

Retail Sector Outlook

Inland Research Team

Executive Summary

Retail Real Estate: Resilient Fundamentals in a Post-Development Era

The U.S. retail real estate sector enters 2026 as one of the more compelling risk-adjusted opportunities within the investment landscape, an outcome that would have seemed unlikely a decade ago, when e-commerce pessimism dominated. Today, a supply-constrained market, record-low vacancy rates, and durable demand from necessity-driven tenants have created favorable conditions for retail landlords. This report examines the macroeconomic foundation and sector-specific dynamics framing our investment philosophy and viewpoint. We believe retail has evolved into a stable, income-oriented, and strategically important component of a diversified institutional portfolio.

Key Takeaways

- Retail enters 2026 with the lowest vacancy rate of any traditional commercial real estate sector, below 5% nationally, with construction completions at decade lows.
- Demographic and labor market trends point to slower consumer spending growth, and increased affordability concerns, favoring necessity-oriented and value-driven retail over discretionary formats.
- Rising construction and financing costs place new development further out of reach as rents remain well below their required threshold to justify new stock.
- Grocery-anchored centers and well-located open-air strip centers are the highest-conviction product types; enclosed malls and discretionary-dependent formats carry meaningful risk.
- Top target markets include Sun Belt cities with sustained population growth as well as high-density gateway markets.

In our view, retail offers a fundamentally sound investment opportunity to capitalize on a constrained new supply environment and sustained demand for well-positioned centers.

Macro Forces Shaping Retail Performance

An Evolving Labor Force: Older and Slower
After decades of expansion fueled by favorable demographics, the U.S. labor market is facing a deceleration driven by those once favorable and now unfavorable demographics. The U.S. labor force grew rapidly between 1948 and 2007 at 1.9 percent annually, driven by the Baby Boom, rising female labor force participation, and robust immigration.[1] While Gen X also entered the workforce during this period, its impact was more muted given its smaller cohort size. These tailwinds have materially faded, as the largely irreversible reality of demographics sets in, resulting in the labor force only growing at an annual rate of 0.8 percent since 2008, just half of the prior pace.[1]

Practically speaking, annual job creation is now structurally constrained. Historically, from 1948 to 2007, the economy added an average of 1.6 million jobs per year. From 2008 through 2025, that pace slowed to roughly 1.1 million per year with that growth occurring off a much larger employment base, further reducing the percentage rate of expansion.[2]

Recently, hiring has been heavily concentrated in healthcare and social assistance, which is reflective of the aging population.[3] The share of the U.S. population aged 65 and older was 12 percent in 2000, increased to 19 percent by 2026, and is projected to reach 22 percent by 2040.[4] As the country continues to age over the coming decade, the U.S.-born working age population (aged 20 to 64) is projected to shrink, suggesting that the lion's share of job growth will have to come from immigration, which can be more volatile and subject to policy changes.[5]

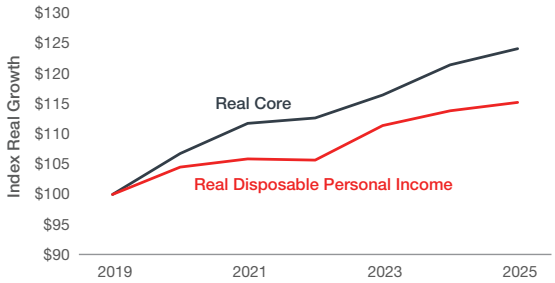
Consumer Spending: Moderation, Not Collapse
Despite consumer sentiment remaining remarkably low over the last half decade, consumers are continually demonstrating a proclivity to spend. Real consumer spending has grown an average of 3.6 percent annually over the last five years, with 2025 slowing down to just 1.6 percent as slower economic growth, softer job creation, and tighter financial conditions weigh on spending.[6] Additionally, personal consumption growth has outpaced disposable income growth over the last decade, with a cumulative 24 percent versus only 15 percent.[7]

The financing of this continued consumption has been supported, in part, by increased consumer debt and decreased savings. Throughout the last five years total credit card debt has grown by an average of 9.4 percent compared to an average of 5.2 percent growth for all household debt. Total household debt continues to reach new highs as it grew by $740 billion in 2025, slightly above the trailing ten-year average annual growth of $666 billion.[8] Coupled with the depletion of excess pandemic-era savings and a five-year average savings rate of just 5.8 percent, which further declined to 4.6 percent in 2025, well below the trailing 50-year average of 7.2 percent,[9] consumers are being stretched thinner even as spending continues. The gap between income and spending is increasingly being covered by balance sheet drawdowns.

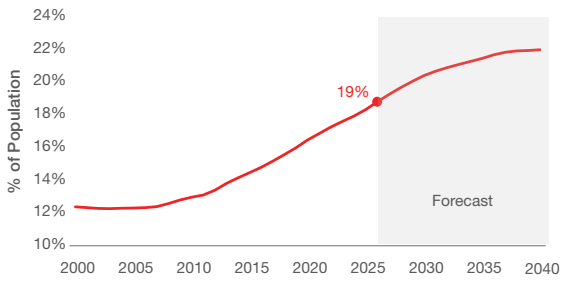
The K-Shaped Economy
Spending is becoming more stratified by income cohort, with the top ten percent of income earning households making up 45 percent of outlays, compared to 2020 when they made up just 40 percent.[10] Furthermore, the top ten percent now owns 32 percent of household wealth compared to 23 percent in 1990.[11]

High-income consumers are better able to absorb inflation shocks versus low- and middle-income consumers, who face real wage pressure, rising debt balances, and increasing delinquencies.[12] Retail formats serving necessity spending are structurally more resilient than those dependent on discretionary or aspirational purchasing.

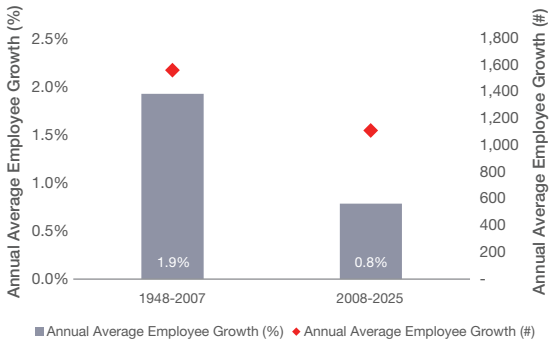
Personal Consumption vs Disposable Income (Indexed at $100 in 2019)[13]



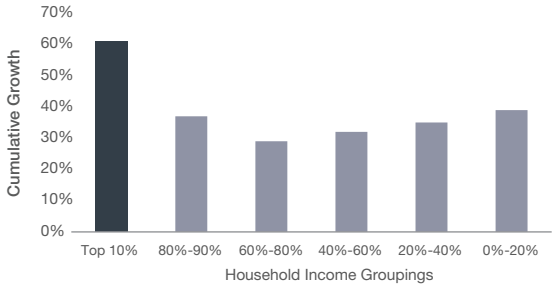
US Population Aged 65+ Share[14]



Employee Growth[15]



Cumulative Growth in Personal Outlays By Income (2020-2025)[16]



E-commerce vs. Brick-and-mortar

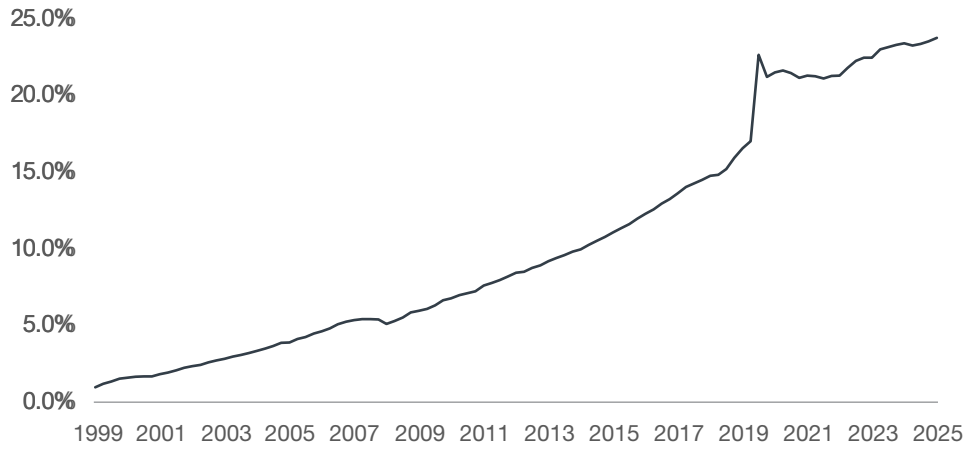
Change Agent: Internet Shopping

Internet shopping has exploded since the first sale of a Sting CD in 1994.[17] Logistics networks and physical space have changed over the years as more people shop online. E-commerce now accounts for nearly 24 percent of total retail sales (excluding auto, gas, and food services) up roughly 40 basis points from 2024.[18] While still expanding its share of retail sales, e-commerce growth is slowing down. From 2010 through 2019 its share grew at a ten percent clip annually, and if we exclude the pandemic induced run up its share has only expanded at a two percent clip from 2022 through 2025. We expect continued e-commerce expansion as younger generations' purchasing behavior becomes an increasingly larger part of the market.

This next phase of digital growth is already underway, being driven by Artificial Intelligence (AI), as personal AI assistants are already ordering and executing consumers' daily needs.[19] This trend is likely to continue and spread as adoption grows. AI assistants are expected to remove friction and allow consumers to get better priced, timelier, and more personalized goods. They are able to research, compare, and execute on behalf of a consumer's hyper-specialized needs, optimizing for personal taste and preference.

Much like the first e-commerce sale, we have not lost our "faith" in the need for a physical retail experience. In fact, increased e-commerce and AI use are evolving the in-person retail experience rather than eradicating it. These tools reinforce the need for physical proximity as stores increasingly function as fulfillment hubs, return centers, and brand touchpoints. Consumers still rely on physical locations to try on and test products, pick up and return online orders, dine and socialize, discover new brands, and meet everyday household needs, from groceries to last minute essentials. They also seek in person experiences that simply can't be replicated from the couch. We expect brick-and-mortar to remain a foundational part of the consumer experience.

E-Commerce as a % of Retail Sales[20]



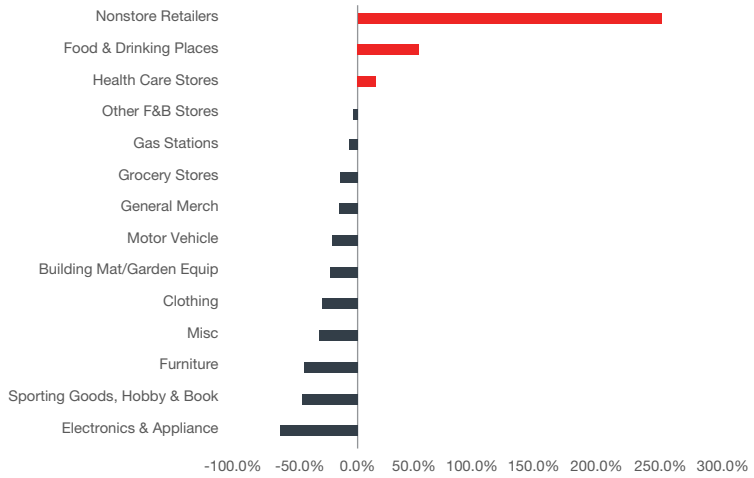
Shopping's Evolution: The Omnichannel

Consumer brands have moved beyond purely digital or purely brick-and-mortar strategies, increasingly combining physical and online channels to meet customers in both locations. This shift is evidenced by 82 percent of direct-to-consumer brands, including Warby Parker and Vuori, now operating physical locations, with digitally native brands planning stores outnumbering those remaining online only, supporting continued retail leasing momentum.[21]

The Geography of Consumer Spending

Retail sales including food and beverage in 2025 totaled $8.7 trillion, a four percent increase from 2024. In 2025, sales were dominated by motor vehicles (19%), non-store retailers which is mostly e-commerce (17%), food & beverage (14%), general merchandise stores (11%), and grocery (11%).[22] The most significant shifts over the past 25 years include the rise of e-commerce and the expansion of food & beverage and health/ personal care retailers. Food & beverage, in particular, has grown its share as consumers prioritize time-saving formats, such as fast casual concepts and drive-thrus, and seek experiential outings like social dining and bars, all combined with a backdrop of sustained food and labor inflation.

Change in Retail Category Share of Total Sales (2000-2025)[23]



Grocery: Providing Essentials
Total U.S. grocery store sales reached roughly $915 billion in 2025, a 2.8 percent year-over-year increase, slightly outpacing the 2.4 percent growth in the CPI's food at home component.[24] Grocery remains the most recession resistant retail category, as the fundamental, non-discretionary need for nutrition provides unmatched structural durability.

Many grocers continue to expand their presence. Aldi experienced 17 million new customers in 2025 and plans to open another 180 stores in 2026.[25] Value-format (Grocery Outlet) and fresh-format operators (Trader Joe's, Whole Foods, Sprouts) are outperforming conventional banner operators on foot traffic metrics.[26] The drug store sector contraction has also created backfill opportunities as CVS and Walgreens combined closed approximately 770 stores in 2025, and Rite Aid exited entirely in October 2025.[27] CVS has spotted this and is planning its first expansion since before the pandemic.[28]

Food & Beverage: The New Traffic Engine
The National Restaurant Association projects restaurant and food service sales of $1.55 trillion in 2026, a 1.3 percent real increase from the prior year.[29] Food & beverage now functions as a primary traffic driver in open-air centers, substituting for the anchor role once played by department stores.

Health, Wellness and Personal Services
U.S. consumer wellness spending exceeds $500 billion annually, and is growing at four to five percent per year, as evidenced by the 84 percent of U.S. consumers who say wellness is a top or important priority.[30] Fitness studios, urgent care, dental, optometry, med spas, and personal care are non-replicable online and produce long-term lease commitments driving sustained demand.

Off-Price vs. Department Stores
Off-price retailer sales are surging as consumers are becoming more cost-conscious, driven by affordability issues. This is exemplified in the public markets as off-price retailers (TJX, Ross, Burlington) are outperforming department stores (Kohl's, Macy's) on nearly all fronts. These retailers have stronger net profit margins, higher returns on equity, stronger five-year sales growth, faster inventory turnover, and are expanding rather than shrinking store footprints. This outperformance creates steady demand for 20,000 to 30,000 square foot anchor tenants in power and strip centers.

Off-price Retailers vs. Department Stores 2025 Performance[31]

Company	Net Profit Margins	Return on Equity	Since 2019 Sales CAGR	Inventory Turnover (days)	Since 2019 Footprint Growth
Burlington	5.3%	33.8%	8.0%	72	66.7%
TJX	9.1%	53.9%	6.4%	60	15.2%
Ross	9.4%	34.7%	6.0%	56	25.6%
Macy's	2.8%	13.2%	-1.4%	120	-14.2%
Kohl's	1.8%	6.7%	-1.9%	113	-0.5%

Bankruptcies: How Store Formats are Changing

Between 2017 and 2021 many large category-defining retailers such as Toys "R" Us, Sears, Ascena, GNC, and Mattress Firm went bankrupt, vacating significant blocks of big box space and imposing structural questions about long-term re-tenanting. By contrast, recent bankruptcies such as JOANN Fabrics, Party City, Big Lots, Rite Aid, and Saks Global are smaller in scale, and more concept specific. Most of 2025 and the early signs of 2026 indicate relatively muted bankruptcies.[32] As a result, today's closures are better understood as anticipated tenant level dislocations that create re-tenanting opportunities, rather than the systemic format failures that defined the prior cycle.

We expect these patterns to continue as aging demographics drive additional health-related spending and as consumers seek both seamless online experiences and more meaningful in-person touchpoints. At the same time, persistent affordability pressures are likely to sustain demand for necessity-based retail, particularly grocers.

Sector Fundamentals & Capital Markets

Supply Constraints

Over the past four years, retail fundamentals have been shaped by historically low levels of new supply, which have reduced available space and pushed occupancies higher. Development economics no longer support speculative construction at current rent levels, as construction costs have risen 23 percent since 2021 while rents have increased only 18 percent.[33] In this environment, opportunities exist to acquire quality assets well below replacement cost.

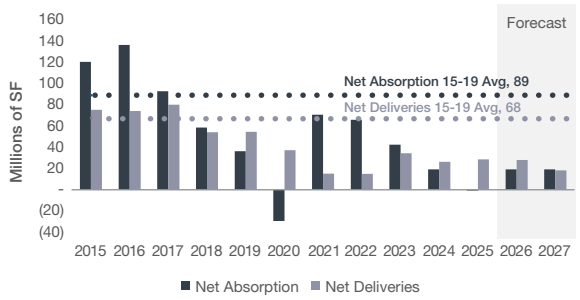
Net deliveries in 2025 were up nine percent year-over-year, yet remain 58 percent below the 2015 through 2019 average. Under construction space remains well below the 2015 through 2019 average by 29 percent, just as new starts have fallen to only 50 million square feet, their lowest point since before the Great Financial Crisis. Net absorption has moderated from its post-pandemic surge and turned slightly negative in 2025 at 0.8 million square feet. Despite the contraction in net absorption, leasing demand has stayed strong with months-to-lease near record lows at roughly seven months.[34]

Vacancy has fallen sharply from its pandemic-era peak and now sits at 4.3 percent, the lowest among major real estate sectors. Rents have grown at an average annual rate of 3.4 percent since 2020, slowing to 2.4 percent in 2025.[35]

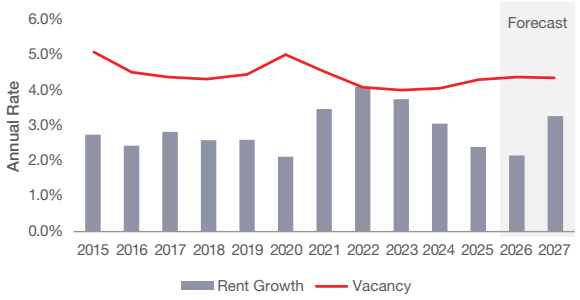
Pricing Conditions Stabilizing

Capital market conditions for retail real estate have improved meaningfully since the rate-driven dislocation of 2022/2023. The retail sector has become more desirable, with increased transaction volume at $73 billion in 2025, up 15 percent over 2024 volumes. Pricing has also stabilized in 2025, with cap rates holding flat from 2024 at 7.3 percent, ranging from approximately 5.7 percent for neighborhood centers in primary markets to the low double digits for suburban malls.[36] Debt has also steadied as fixed rate spreads were stable year-over-year at 2.5 percent, while floating rate spreads compressed by 40 basis points to 2.4 percent.[37]

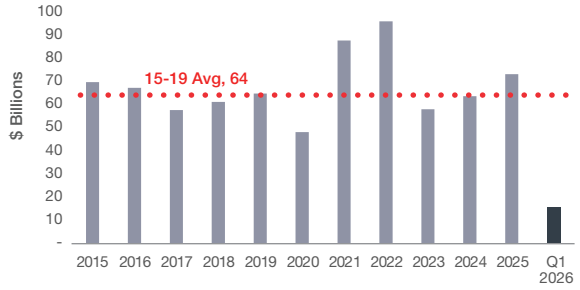
Supply vs Demand[38]



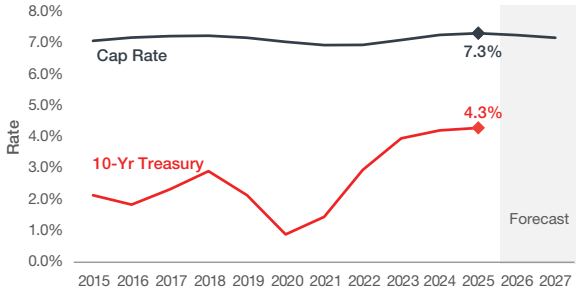
Rent Growth & Vacancy[38]



Transaction Volume[38]



Cap Rate[38]



High-Conviction Allocation: Grocery-Anchored Retail

We believe grocery-anchored retail is one of the most defensible product types in the retail commercial real estate universe and an appropriate core holding for any institutional portfolios seeking exposure to the sector. The thesis rests on five durable, mutually reinforcing pillars:

- **Non-discretionary demand:** Grocery spending is the last category cut in a downturn, creating durable, through-the-cycle cash flows largely insulated from consumer sentiment.
- **Aging demographic tailwind:** Older Americans spend a higher share of budgets on food at home and pharmacy.[39] As the 65-plus cohort grows, grocery-anchored centers benefit.
- **Supply constraint:** Net deliveries have been under 8 million square feet since 2017, as vacancy has dropped to 2.5 percent.[40] New supply has been and is forecasted to be effectively off the table.
- **Omnichannel reinforcement:** Online growth is reinforcing rather than cannibalizing physical traffic, as brick-and-mortar locations serve as fulfillment hubs for digital orders.
- **Anchor-quality differentiation:** Value-format grocers and fresh-format operators are outperforming conventional banners on foot traffic.[41] Centers anchored by these operators in high-income suburban submarkets represent, in our view, attractive underwriting opportunities.

Property Type Fundamentals (as of Q4 2025)[42]				
Property Type	**Vacancy**	**Rent Growth**	**E-Commerce Risk**	**Cap Rate**
Grocery-Anchored Centers	2.5%	3.0%	Very Low	6.9%
Strip Centers	4.9%	2.4%	Low-Moderate	7.2%
Neighborhood Centers	6.4%	3.0%	Low-Moderate	7.4%
Power Centers	4.6%	3.1%	Moderate	7.4%
Malls	8.6%	2.8%	High	7.2%
National Average	**4.3%**	**2.4%**	**Moderate**	**7.3%**

Market Selection

Geography is as important as product type. While vacancies are extraordinarily low across the retail sector and rents are growing at a stable pace, a handful of market types are poised to outperform.

(1) Sun Belt growth markets, where population inflows are directly driving trade expansion, are experiencing the majority of new supply, along with consistent rent growth and stable to strong returns. These markets have sustained in-migration, relatively young demographics, business-friendly regulatory environments, and robust retail sales growth.

(2) High-density suburban coastal markets with natural supply constraints, and large and stable populations, have seen stable vacancies and rent growth. These particular markets have dense populations, high household incomes, and limited available retail space due to land constraints and regulatory barriers to development.

Highlighted Market Summary (as of Q4 2025)[43]				
Market	**Vacancy**	**Rent Growth**	**Under Cons % of Inv**	**Total Return**
Austin, TX	3.1%	2.7%	2.2%	11.3%
Chicago, IL	4.8%	2.3%	0.2%	4.2%
Dallas-Fort Worth, TX	4.9%	3.6%	1.6%	4.7%
Los Angeles, CA	5.8%	-0.6%	0.1%	5.5%
Miami, FL	2.9%	1.0%	0.6%	6.6%
Minneapolis, MN	2.7%	6.3%	0.3%	6.9%
Nashville, TN	3.6%	5.3%	0.6%	13.2%
New York, NY	4.2%	2.6%	0.1%	7.2%
Phoenix, AZ	4.5%	5.2%	1.4%	8.5%
Washington DC	4.2%	3.4%	0.2%	4.7%
National Average	**4.3%**	**2.4%**	**0.4%**	**6.8%**

Retail Outlook

From our perspective, a decade of underbuilding, combined with rising construction costs and competing uses for developable land, has created a structural floor. In this environment, the best retail assets to generate superior risk-adjusted returns are those serving non-discretionary needs. Our highest-conviction allocation is grocery-anchored centers in Sun Belt growth markets and high-density suburban coastal nodes. We believe value and fresh-format grocery anchors offer strong tenant durability, and that open-air strip centers with necessity- and service-oriented tenants offer similar durability at higher yields.

We expect the coming years to be driven by a low new supply, and stable demand environment. Investors would be wise to avoid discretionary-heavy formats, which could face structural headwinds from both demographic and spending shifts. The retail sector's combination of low vacancies, stable rent growth, and institutional re-engagement make it, in our view, an attractive investment strategy in the coming years.



Phil McAlister
SVP & Head of Research



Hayden Jensen
Research Associate

[1] Fred PAYEMS
[2] Fred PAYEMS
[3] BLS.gov Current Employment Statistics
[4] CBO Demographic Projections January 2026
[5] CBO Demographic Projections January 2026
[6] University of Michigan Consumer Sentiment Survey & Fred Personal Consumption Expenditures
[7] Fred Real Core PCE vs Real Personal Disposable Income
[8] NY Fed HH Debt & Credit
[9] Fred Personal Savings Rate & https://www.frbsf.org/research-and-insights/data-and-indicators/pandemic-era-excess-savings/
[10] https://www.minneapolisfed.org/article/2026/have-us-consumers-gone-k-shaped-a-review-of-the-data
[11] Federal Reserve Distributional Financial Accounts
[12] Atlanta Fed Wage Growth Tracker, NY Fed HH Debt & Credit Report
[13] Fred DPCCRL1Q225SBEA & DSPIC96_PC1
[14] CBO The Demographic Outlook: 2026 to 2056
[15] Fred PAYEMS
[16] https://www.minneapolisfed.org/article/2026/have-us-consumers-gone-k-shaped-a-review-of-the-data
[17] https://www.nytimes.com/1994/08/12/business/attention-shoppers-internet-is-open.html
[18] Census.gov Retail Trade
[19] https://x.com/jessegenet/status/2044587346612600854
[20] Census.gov Retail Trade excluding auto, gas, and food services
[21] The direct-to-consumer brands have generated more than $50 million in revenue. https://www.trendtrack.io/blog-post/top-dtc-brands & https://www.icsc.com/news-and-views/icsc-exchange/where-do-digitally-native-brands-stand-among-tenants-competing-for-space
[22,23] Census.gov Monthly Sales for Retail and Food Services
[24] Census.gov Grocery Stores & BLS.gov Consumer Price Index
[25] https://corporate.aldi.us/newsroom/news/aldi-us-doubles-down-on-growth-in-2026
[26] https://www.supermarketnews.com/grocery-trends-data/placer-ai-fresh-format-grocers-saw-largest-bump-in-foot-traffic-in-2025
[27] https://www.supermarketnews.com/grocery-trends-data/placer-ai-fresh-format-grocers-saw-largest-bump-in-foot-traffic-in-2025 & https://www.msn.com/en-us/money/companies/cvs-and-walgreens-are-closing-nearly-770-stores-in-2025/ar-AA1PmYl8
[28] https://www.wsj.com/business/retail/cvs-to-grow-store-footprint-this-year-with-60-new-locations-de0d77c0?mod=retail_more_article_pos11
[29] https://restaurant.org/research-and-media/research/research-reports/state-of-the-industry/
[30] https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/future-of-wellness-trends
[31] Company Quarterly and annual filings | TJX store growth using US only
[32] Green Street March 2026 Strip Center Sector Update
[33] RSMeans 30 National 30 City Average, 2025 & CoStar
[34] CoStar
[35] CoStar
[36] CoStar & Green Street
[37] Chatham Financial Q4 2025 Lending Market Overview
[38] CoStar & Fred:DGS10
[39] https://www.bls.gov/opub/btn/volume-4/consumer-expenditures-vary-by-age.htm
[40] CoStar
[41] https://www.supermarketnews.com/grocery-trends-data/placer-ai-fresh-format-grocers-saw-largest-bump-in-foot-traffic-in-2025
[42] CoStar Data as of YE 2025
[43] Costar & NCRIEF Data as of YE 2025



This report is neither an offer to sell nor a solicitation of an offer to buy any security which can be made only by a prospectus or offering memorandum that has been filed or registered with appropriate state and federal regulatory agencies, and sold by registered investment advisers authorized to do so.

Opinions expressed reflect the current opinions of Inland Real Estate Investment Corporation (Inland Investments) as of the date appearing in the materials only and are based on Inland Investment's opinions of the current market environment, which are subject to change based upon economic, real estate and other market conditions. Any forward-looking statements are based on information currently available to Inland Investments and are subject to a number of known and unknown risks, uncertainties and factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Past performance is not a guarantee of future results. Certain information contained in the materials discusses general market activity, industry or sector trends, or other broadbased economic, market or political conditions and should not be construed as research or investment advice. Investors, financial professionals and prospective investors should not rely solely upon the information presented when making an investment decision and should review the most recent offering materials for the applicable investment program.

The Inland name and logo are registered trademarks being used under license. "Inland" refers to The Inland Real Estate Group of Companies, Inc. which is comprised of a group of independent legal entities some of which may be affiliates, share some common ownership or have been sponsored and managed by such entities or subsidiaries thereof. Inland Investments, member FINRA/SIPC, is dealer manager and placement agent for programs sponsored by Inland Investments and its affiliates. For more information on Inland Securities Corporation, visit FINRA BrokerCheck.

Publication date: 05/11/2026