



Navigating the shifting landscape of retail real estate: Trends, challenges and valuations - by Margo Tiffen

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In today's ever-changing retail real estate market, property owners find themselves at the forefront of seismic shifts, shaped by evolving consumer behaviors and constant innovation. This article provides insight on the current trends influencing the retail landscape, their implications on commercial property valuations, and how property owners can effectively navigate this dynamic terrain.

The picture for suburban retail might appear favorable at the moment, with retail vacancy holding steady at 4.2%, the lowest vacancy rate among all commercial sectors in the 2nd quarter of 2023, according to the National Association of Realtors. However, a closer examination reveals long-term vulnerabilities. The urban exodus following the pandemic prompted many city residents to move to the suburbs. Their employers followed suit, as suburban office space was more cost-efficient and facilitated employee commutes. This transition fueled a surge in suburban retail, catering to the influx of residents. Landlords nationwide have seized this opportunity, increasingly investing in shopping malls to capitalize on the suburban live-work-shop experience. However, this appears to be only temporary, as the key driver of heightened retail activity, apart from the urban migration, was the one-time trillion-dollar stimulus from the COVID relief package. As this stimulus effect diminishes and interest rates continue to stagnate, coupled with potential economic downturns, consumer spending and retail sales will be negatively impacted.

Another factor is that suburban retail rents are not expected to experience sustained growth. While landlords are facing escalating costs, tenants, who are constrained by limited budgets, are unable to absorb these expenses.

Emerging trends in suburban retail real estate, such as the rise of 'eatertainment' venues, mixed-use developments, and the integration of healthcare or 'medtail' facilities into malls, may appear promising. However, landlords with vacant properties will inevitably compete to attract such tenants. Growth prospects remain restricted with demand for these businesses struggling to outweigh the existing supply.

The same trends which provided a temporary boost to suburban retail have decimated urban downtowns. Urban downtown foot traffic experienced a 25% decline in April 2023, compared to April 2019, according to MRI Springboard, a real-estate software provider. In the latter half of 2022, urban retail vacancies outstripped suburban vacancies for the first time since 2013, as reported by the WSJ. Urban retail rents have fallen precipitously due to fewer shoppers and a diminished service worker population, at the same time as landlords grapple with escalating costs. In Manhattan alone, remote work decreased the commuter-adjusted population by 800,000, according to census.gov.

Amidst the dynamic shifts in the retail landscape, the implications for commercial property assessments and tax grievances are profound and interconnected. As retail trends vacillate in both urban and suburban domains, the valuation of commercial properties experiences corresponding fluctuations. Landlords must recognize the direct correlation between these trends and the assessed value of their properties, as tax obligations are intricately tied to property valuations.

The surge in suburban retail activity, while initially promising, is likely to slow or stagnate, due to various economic factors. Conversely, the decline in urban downtown foot traffic and rising vacancies necessitate a reassessment of property values in these areas. At Realty Tax Challenge, we are committed to helping property owners navigate these complexities. As leading experts in New York commercial property valuation, we understand the multifaceted variables that influence property value and how to highlight these effectively to the assessor. Our expertise empowers property owners to present compelling cases for reduced assessments, ultimately optimizing their tax obligations in an evolving retail landscape. Don't let outdated and potentially inaccurate data impact your property's value. Contact us today to ensure you achieve the best possible outcome for your property.

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