



COSTAR INSIGHT

Retail rents grow at slowest pace since 2014

Midwestern markets outperform as Sun Belt gains ease



A Publix grocery store in Orlando, Florida, an area where retail rents increased by an average of 5.1% over the past year. (CoStar)

By [Brandon Svec](#)

CoStar Analytics

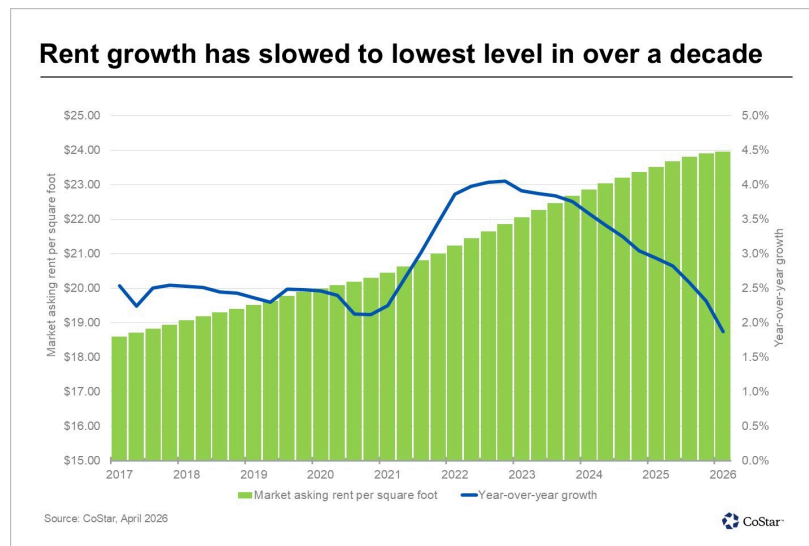
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Retail rents grew at their slowest pace in the first quarter since 2014, reflecting a market gradually returning to equilibrium after several years of outsized gains.

At the national level, asking rents for retail space increased by a modest 1.9% over the past year, extending a moderating trend that began in 2023 as the pace of rent growth continued to cool. This is the first time year-over-year growth fell below 2.0% since the first quarter of 2014, when it was just 1.8% as the market was still recovering from the Great Recession.

While supply and demand fundamentals in the retail sector remain balanced, a slight uptick in vacancy, alongside moderating tenant sales growth, has reduced landlords' ability to push rents at the aggressive pace seen immediately after the pandemic.



This deceleration is less a sign of weakening demand than a function of normalization. Retail sales surged in the years following the pandemic, driven by fiscal stimulus, stronger household balance sheets, and a rapid rebound in store traffic.

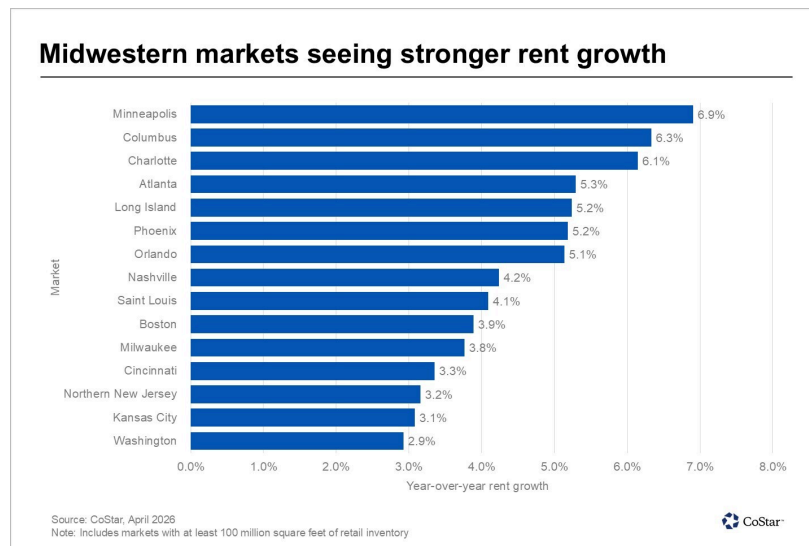
Rent increases followed, but with a lag. As sales growth has leveled out across most retail segments, occupancy costs have risen back to, and in some cases above, pre-pandemic levels.

With rent-to-sales ratios now more closely aligned with historical averages, operating costs and interest rates remaining elevated, and uncertainty rising, retail tenants have become more resistant to additional rent pressure, particularly in discretionary categories. As a result, the pace of rent increases has moderated even as retail leasing activity and occupancy remain relatively strong.

Regional variance

That deceleration is evident across most major markets, though performance continues to vary by region. Several Sun Belt markets that led the nation in retail rent growth earlier in the cycle, including Phoenix, Orlando, Florida, Atlanta and Charlotte, North Carolina, still posted solid year-over-year gains at the end of the first quarter, but growth rates have clearly slowed as asking rents reset to higher plateaus.

Coastal U.S. markets, including Los Angeles and San Francisco, recorded flat to modestly negative rent growth over the past year, reflecting both existing higher rent levels and a more pronounced pullback in discretionary spending.



In contrast, Midwestern markets are showing renewed momentum. Minneapolis posted the strongest year-over-year gain in retail rent increases at 6.9%, outperforming many faster-growing Sun Belt peers. Columbus, Ohio, Milwaukee, Cincinnati, Kansas City, Missouri, and St. Louis, Missouri, also ranked among the better-performing markets.

This retail rent momentum across Midwestern markets reflects a delayed reaction to the post-pandemic surge in consumer spending, as many markets in the Midwest were slower to experience rent increases on the back of the rapid increase in sales growth.

At the same time, a growing number of markets posted retail rent declines over the past year. In addition to high-cost coastal metropolitan areas, several markets, including Pittsburgh, Detroit, Sacramento, California, and Philadelphia, recorded modest contractions in average retail rents.

Taken together, first-quarter data suggest retail rents are entering a more sustainable phase of growth. The rapid run-up in rents that followed the post-pandemic sales surge has largely played out, bringing occupancy costs back in line with long-term averages.

While rent growth is unlikely to reaccelerate meaningfully in the near term, limited new supply and consistently strong tenant demand should provide a floor under retail rents, particularly in markets where pricing lagged earlier.

In addition, thanks to the outsized growth seen earlier this decade, retail landlords are still experiencing near multi-decade-high rent spreads when spaces leased under five- and 10-year leases roll over.

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