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Perspectives

Retail's Recovery *Is an Income Story*

Why supply discipline and local consumer strength may matter more than a broad sector rebound.

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Retail has moved from a sector investors often avoided to one contributing meaningfully to the real estate recovery. For private wealth investors, the case rests on three connected forces: a smaller supply of viable space, consumers who continue to spend but are increasingly selective, and the potential to build returns through durable income rather than relying on falling interest rates.

A Smaller Footprint Can Support Income

After a decade of e-commerce growth, store closures, and shifting consumer habits, retail centers may face less competition in the future. Since 2000, about 480 million square feet of U.S. retail space has been demolished, with slower new development for over a decade.[1] This leaner, better-occupied footprint may reduce new-supply pressure on existing centers and may give well-located properties greater influence over their trade areas.

Market pricing is beginning to reflect this shift. NCREIF data show that U.S. retail led major property sectors in cumulative total returns since its 2022 peak, with strip retail reaching 21%.[2] The recovery has expanded beyond open-air centers to include malls. Europe has also improved, led by high street retail, while developed Asia has lagged. This regional divergence matters: lagging markets may offer potential, but only when rents, occupancy, and new construction all point in the same direction.

Consumer Resilience Is Real, But Uneven

Inflation still pressures household budgets, but spending capacity hasn't uniformly declined. U.S. wages have kept pace with or outpaced inflation in nearly every category except electricity; European wage growth has broadly matched price growth.[3] Yet four in five Americans have changed shopping habits in response to tariff-related price hikes,[4] while Boston Consulting Group finds value is now a leading purchase driver in Europe.[5] Consumers continue spending but choose more deliberately.

For property owners, these choices highlight the importance of local context. U.S. wealth gains have concentrated among higher-income households, potentially benefiting centers in stronger trade areas if pressure on lower-income consumers grows. Tenant quality matters too: Hines Research found that, in its Atlanta portfolio analysis, centers anchored by Trader Joe's achieved rents about 25% above market, even accounting for location.[6]

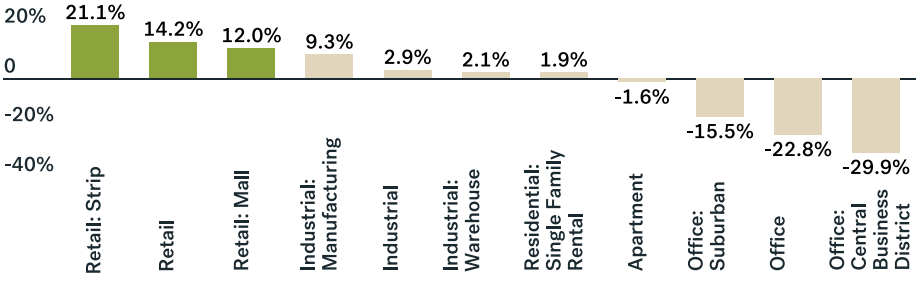
The Importance of Income in the Next Phase

We believe retail still offers a meaningful income component, and Hines Research's Q2 2026 pricing measure placed U.S. and European retail below the level at which markets begin to look expensive. But greater investor attention, particularly toward grocery-anchored centers, raises the cost of overpaying. A strong sector trend cannot offset a weak location, an unproductive anchor, or a price that assumes growth has already arrived.

The return environment has also shifted. Investors may have less reason to rely on falling yields to drive broad valuation gains. A more durable case favors assets where constrained supply, dependable tenant demand, and active management can support rent growth and property income over time. Repositioning or improving a center could add value, but we believe outcomes depend on execution and the asset's relevance to its community.

For private wealth portfolios, carefully chosen retail exposure could contribute to recurring income and portfolio resilience potential. As broad repricing gives way to a more differentiated market, long-term performance is likely to depend less on owning retail broadly and more on choosing centers that continue to serve the people and businesses around them.

Figure 1: Retail Has Returned to Lead the U.S. Recovery
U.S. private real estate cumulative total return since Q2 2022 peak for major sectors and subtypes



Sources: NCREIF, Hines Research. As of Q2 2026. NCREIF property-level total returns are presented gross of fees and expenses and are not representative of Hines fund or portfolio performance.

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Endnotes

1. CoStar, CBRE, JLL, Hines Research. As of Q2 2026.
2. NCREIF, Hines Research. As of Q2 2026.
3. Bureau of Labor Statistics and Eurostat, CEIC, Hines Research. As of Q2 2026.
4. Upside, "Consumer Spend Report," February 5, 2026.
5. Boston Consulting Group, "European Consumers Are Still Cutting Back," June 2026
6. CoStar, Hines Research. As of Q3 2024 as a one-time proof-of-concept analysis. Hines Research analysis of grocer-anchored center rents in the Atlanta metropolitan area. The premium was estimated after controlling for locational quality.