

Retail property's quiet comeback

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Retail property's quiet comeback

Artificial intelligence and data centres dominate property headlines, yet one of the strongest operating stories in global real estate is hiding in plain sight: the best malls and shopping centres are full, rents are rising, and almost nobody can afford to build competing space.

The death of the mall was greatly exaggerated

For much of the past decade, retail property was treated as the part of real estate that technology would make obsolete. Amazon was taking market share, department stores were shrinking and every online sales milestone seemed to imply another empty shop. The disruption was real. But the industry that emerged from it is very different from the one that entered it.

Online shopping has not stopped growing: e-commerce accounted for 17.1% of US retail sales in the second quarter of

2026, according to the US Census Bureau. That still means roughly 83% of retail spending happens through other channels. What has changed is the assumption that online and physical retail are substitutes. For many brands, stores are now marketing channels, customer-acquisition tools, return points, and fulfilment nodes as well as places to transact. Retailers have become far more selective about where they open, but they are competing aggressively for the best locations.

That flight to quality is visible almost everywhere. Simon Property Group's US malls and outlets are 96% occupied and retailer sales per square foot rose almost 14% year on year in the latest quarter. In Europe, Unibail-Rodamco-Westfield reported record-low shopping-centre vacancy of 4.1%, while Klepierre's occupancy is 97.1%. In Australia, Scentre Group's Westfield portfolio is 99.8% occupied. These are not recovery-level numbers; they are scarcity-level numbers.

FIGURE 1 • OCCUPANCY ACROSS PRIME LISTED RETAIL PORTFOLIOS



Latest reported occupancy. Unibail-Rodamco-Westfield shown as occupancy implied by reported shopping-centre vacancy of 4.1%. Source: company reporting.

The Australian evidence captures the economic logic. Consumer spending continues to rise while shopping-centre floor space per person is expected to fall. More spending is

being concentrated into a smaller, higher-quality pool of physical space.

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Scarcity is becoming retail's moat

The most important change is on the supply side. The US spent years closing, demolishing, or repurposing weaker malls. ICSC data cited by JLL put the number of enclosed US malls at

roughly 1,100 in 2026, down from about 1,400 around fifteen years earlier, while genuinely new enclosed malls have become almost non-existent. The survivors are disproportionately the better assets in stronger catchments. Retail's lost decade did not eliminate physical shopping; it eliminated a great deal of marginal space.

Scarcity is becoming retail's moat

Open-air retail tells the same story. US strip-centre supply growth has collapsed from almost 3% a year before the global

financial crisis to roughly 0.3% today, while listed REIT occupancy has climbed back to about 96%.

FIGURE 2 · US STRIP-CENTRE SUPPLY GROWTH, PER CENT A YEAR



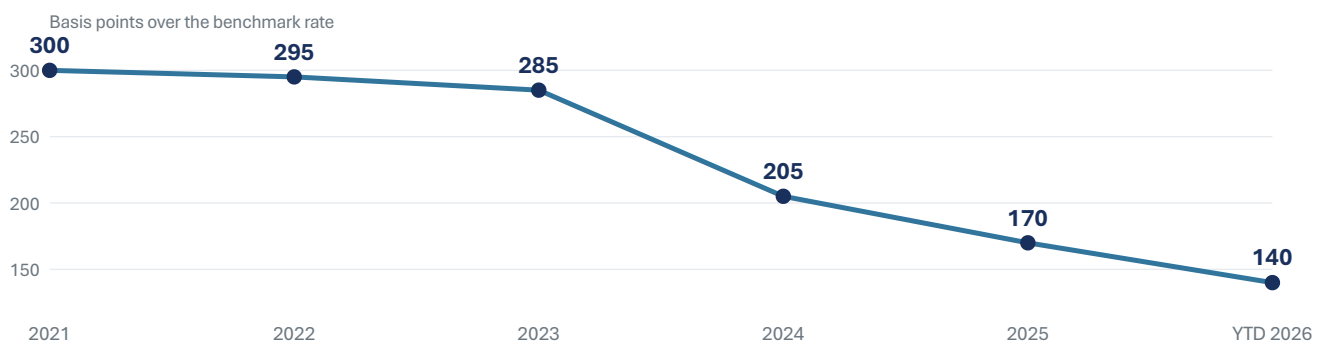
Redrawn from Green Street, 1Q26 Strip Center Sector Update, "Capital Chasing Fundamentals", 19 May 2026. Teal columns mark the pre-crisis years.

The effect shows up in rents. Blended cash re-leasing spreads reached about 15% in the second quarter of 2026, a twenty-year high, with new leases around 28% above prior rents on a trailing twelve-month basis. Landlords are no longer merely filling pandemic vacancies; they are replacing lower-productivity tenants with stronger brands at higher rents.

Why has development not responded? Because the economics still do not work. Construction costs, land prices and financing

costs have risen much faster than retail rents. Across the top 50 US markets, market rents would need to rise by roughly 65% on average to make new strip-centre development meet required returns, against an estimated ground-up cost of about \$450 per square foot. In several markets the required rent increase is close to double. That replacement-cost gap gives existing landlords an unusually durable supply advantage.

FIGURE 3 · HIGH-QUALITY MALL DEBT RISK PREMIUM HAS COLLAPSED



Weighted average single-asset mall CMBS spread, basis points over the benchmark rate. Source: Green Street, Mall Sector Update, 26 August 2026. 2026 is year to date.

~65%

MARKET RENT INCREASE NEEDED
ACROSS THE TOP 50 US MARKETS

~\$450

PER SQUARE FOOT, ESTIMATED
GROUND-UP DEVELOPMENT COST

~1,100

ENCLOSED US MALLS IN 2026,
DOWN FROM ABOUT 1,400

Debt markets have noticed the turnaround

Perhaps the clearest sign that retail risk has been repriced is in debt markets. From 2021 through 2023, single-asset mall CMBS issuance carried weighted-average spreads of roughly 285 to 300 basis points over the benchmark rate. By 2025 the average had fallen to about 170 basis points, and to around 140 basis points year to date in 2026. This was not simply a thin-market effect: annual single-asset mall CMBS issuance rose from about \$1.8bn in 2021 to \$7.5bn in 2025 as spreads compressed. In August, Glendale Galleria, an A-grade mall in Los Angeles, financed at roughly 130 basis points. Simon's five-year unsecured debt currently trades at approximately 70 basis points over swaps.

This does not mean debt is cheap. The US ten-year Treasury was still around 4.7% in late August, so all-in borrowing costs remain much higher than during the ultra-low-rate era. The

important point is that the credit premium attached to prime retail has collapsed. Lenders increasingly distinguish between obsolete secondary malls and cash-generative, high-occupancy assets with visible rental growth.

Property values are following the same path. Green Street's US mall price index rose about 13% over the year to August and is now above its 2022 peak, making malls the only major US property type to have recovered beyond that watermark. Strip-centre values have also recovered to roughly their prior peak. This is especially notable because the recovery has occurred while risk-free rates remain high. It is being driven by income, leasing, and scarcity rather than by falling discount rates alone.

A global, but selective, recovery

MARKET	LATEST EVIDENCE	WHAT IT SAYS
US prime malls	Simon: 96% occupancy; sales per square foot up 13.9% year on year	High occupancy plus rising tenant productivity
Continental Europe	Unibail-Rodamco-Westfield: 4.1% vacancy; Klepierre: 97.1% occupancy	Prime space shortage is restoring landlord pricing power
Australia	Scentre: 99.8% occupancy; releasing spreads up 3.7%	Almost no slack in leading regional centres
Hong Kong and China	Link REIT: rental reversions of -8.2% and -14.3%	The recovery is not universal; local demand and rent bases matter

CBRE and JLL see the same pattern more broadly: prime European retail rents are rising again, and in the most supply-constrained locations retailers are even paying upfront premiums, often referred to as "key money", simply to secure a store or take over an existing lease. That is a strong sign of how scarce the best retail space has become. Asia-Pacific markets from Tokyo to Australia are being supported by the same shortage of high-quality supply.

Hong Kong provides an important nuance. Retail sales there have rebounded, benefiting landlords such as Wharf,

suggesting that Link REIT's weaker performance has been more company-specific than a reflection of the broader market. Link's necessity-based portfolio has been particularly exposed to changing consumer behaviour, as Hong Kong shoppers increasingly use the Express Rail Link to access cheaper everyday goods in mainland China. That pressure now appears to be easing, but it is a useful reminder that retail performance can still vary significantly by asset mix and customer base. Retail has not become a homogeneous buy; quality, location and tenant exposure have become more important than ever.

Lenders increasingly distinguish between obsolete secondary malls and cash-generative, high-occupancy assets.

For investors, the relative value message is also changing. Long-term private market return estimates now favour US malls over strip centres, despite malls carrying the more dramatic

headlines a few years ago. The question is no longer simply whether malls can survive; it is which retail assets have enough scarcity, rent runway, and capital discipline to compound.

Hammerson: from survival to offence

Hammerson's recent history is a useful miniature of the entire cycle. In late 2017 it agreed a £3.4bn all-share deal to buy Intu Properties, owner of the Trafford Centre, only to abandon the transaction in 2018 as shareholders rebelled and the UK retail outlook deteriorated. Two years later the pandemic appeared to vindicate every retail bear: Hammerson's like-for-like net rental

income fell 27%, net debt stood near £3bn and fully proportionally consolidated loan-to-value reached 51%.

The company was forced into survival mode. In 2020 it launched a £551.7m rights issue and sold most of its VIA Outlets stake, together producing about £825m of gross proceeds. It then spent several years shrinking and simplifying the balance sheet: retail parks and non-core assets were sold, £623m of disposals had been completed by early 2022, costs were cut and net debt fell materially.

FIGURE 4 · HAMMERSON, FROM BALANCE-SHEET REPAIR TO CAPITAL DEPLOYMENT



Source: company reporting.

The pivot came in 2024, when Hammerson sold its Value Retail interest for about £600m. The proceeds created room to reduce debt, buy back shares, and start investing again. The disposal was controversial because it was below book value, but the capital-allocation logic is important: Hammerson exited a low-yielding minority interest at a roughly 3.4% cash yield and then redeployed into controlled assets at much higher returns. Since late 2024 it has invested £757m into consolidating ownership of Westquay, Brent Cross, Bullring and Grand Central, and The Oracle at an average yield of about 7.6%. In July 2026 it went further, buying 50% of Manchester Arndale for £218m at a 7.8% topped-up yield, supported by an equity

placing. That is a striking change: equity is no longer being raised to survive, but to buy assets at returns management believes are accretive.

The operating numbers explain the confidence. In 2025, total net rental income rose 23% to £180m and portfolio value increased 33% to £3.5bn. Momentum continued in the first half of 2026: Hammerson signed £18.5m of rent at levels 52% above previous passing rent and 9% above estimated rental value; flagship occupancy reached 96% and full-year earnings guidance was raised to roughly 27% growth. The story has moved from balance-sheet repair to rental growth and capital deployment.

Hammerson's recent history is a useful miniature of the entire cycle.

£757m

INVESTED SINCE LATE 2024 AT AN AVERAGE YIELD OF ABOUT 7.6%

+52%

FIRST-HALF 2026 LEASING, ABOVE PREVIOUS PASSING RENT

96%

FLAGSHIP OCCUPANCY; FULL-YEAR EARNINGS GUIDANCE RAISED TO ABOUT 27%

From survival to offence, and the risks

The Trafford Centre provides a neat bookend. Hammerson does not own it today, but it was one of the crown jewels in the abandoned Intu deal. Trafford Centre Limited's 2025 accounts value the asset at about £1.057bn, up £56.8m in a year in which footfall increased from 22.8 million to 23.5 million. An asset once associated with the sector's debt crisis is again worth more than £1bn.

What could undo this?

There are still risks. Consumer spending is increasingly K-shaped, credit delinquencies are rising, e-commerce continues to gain share, and weaker locations can still suffer large rent resets. Link REIT's Hong Kong and mainland China portfolios

are reminders of that. Higher interest rates also mean balance sheets matter. There is a subtler link to the AI boom too: spending at high-quality malls is disproportionately supported by affluent households whose wealth has benefited from rising equity markets. A sharp reversal in that wealth effect would test today's strong sales trends.

Yet the best retail assets now have something investors usually associate with data centres or logistics: scarce capacity, high replacement costs and customers competing for access. The contrast with today's AI investment boom is instructive. Retail's current strength was created by a decade in which capital avoided the sector and supply barely grew. In real estate, abundant demand can be offset by abundant new supply; scarcity often matters just as much as growth.

THE BOTTOM LINE

These are not recovery-level numbers; they are scarcity-level numbers.

The weakest space disappeared, the strongest centres became more productive, and supply stopped. In a market increasingly dominated by digital infrastructure, an old economy property sector is quietly delivering one of the clearest scarcity stories in global real estate.

17.1%

E-COMMERCE SHARE OF US RETAIL SALES, SECOND QUARTER 2026

~15%

BLENDED CASH RE-LEASING SPREAD, A TWENTY-YEAR HIGH

140bp

MALL CMBS SPREAD YEAR TO DATE, FROM 300BP IN 2021

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