

## Implications

Rising unemployment has serious implications for retail property owners and investors. The U.S. retail vacancy rate has been closely associated with the unemployment rate for the last two decades. With Goldman Sachs and other leading economists calling for 10% unemployment in late 2010, retail vacancy rates are poised to soar to unprecedented levels.

## Analysis

With unemployment projected to rise to double-digit levels within the next two years, retail vacancies are set to also rise to historic levels. During both the 1991-92 recession and the 2001-02 recession, unemployment spiked much higher and retail vacancies in shopping centers closely followed.

Over the last 25 years, the national retail vacancy rate has on average tracked 250 basis points above the U.S. unemployment rate. In times of economic crisis, such as the Savings & Loan Crisis of the early 1990s, and the [dot.com](#) - 9/11 Crises of 2001-02, the spread between retail vacancy and unemployment actually grew larger: to over 400 basis points in 1991 and over 300 basis points in 2003.

In 1992, the unemployment rate peaked at 7.5% according to the BLS, while retail vacancies peaked in 1991 at 11.3%, using a basket of 46 U.S. Metropolitan Markets. The rampant building of shopping centers during the 1980s clearly helped set the stage for the double-digit retail vacancies that followed. However, for those who witnessed this very dark period for all of commercial real estate, it contains some important parallels to today -- in particular, rapidly rising unemployment, falling retail sales, an overbuilt market relative to demand, and very limited access to capital for property owners.

The 2001-02 recession was much milder but still unemployment rose to 6.0% and the retail vacancy rate rose to over 9%, roughly where it stands today.

In early 2009, the unemployment rate is rising very rapidly and the retail vacancy rate is sure to follow. In late 2010, a 10% unemployment rate strongly suggests retail vacancies rising to 14% nationally shortly thereafter. This is clearly bad news for property owners who are already facing the most challenging leasing environment in decades. It also suggests we are still on the leading edge of retail bankruptcies, store closings and liquidations.



# U.S. Retail Real Estate Research

