



# Industry Insights

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## U.S. Shopping Centers Perform Solidly in Second Quarter 2018 Net Operating Income in Line With Prior Quarters

Operational performance data for the second quarter of 2018 suggests a healthy U.S. shopping center industry. As shown in Table 1, while occupancy rates held firm around 93% overall during that period, **net operating income (NOI) and base rents saw gains close to 2% over the same quarter in 2017.** Moreover, last quarter extended the positive year-over-year increases to 26 consecutive quarters for NOI and base rent. The past two quarters' actual NOIs have also been at their highest level since the inception of the series in the first quarter of 2000.

By property type, as seen in Table 2, open-air centers (aggregating neighborhood, community and power centers) saw their NOI reach \$4.19 per square foot (psf) in the second quarter—**its highest level ever as well.** That represented a 2.9% gain over the same period of 2017—also the highest increase since the third quarter of 2016 (+8.3%).

Table 2 also shows that, while occupancy rates remained above 92% in the mall segment, its NOI slipped a bit to \$7.91 psf in the second quarter compared with \$8.13 psf in the first quarter of this year. However, its main component—**base rents—rose in malls by 2.2% in the second quarter of 2018 over the same period last year.** As a result, it reached its second-highest level ever—only slightly behind the record (\$7.23 psf) reported in the fourth quarter of 2017.

Regionally, NOI for U.S. shopping centers varied during the second quarter of 2018. (See Table 3.) The strongest performance was in the South, increasing by a solid 3.0% from the same period last year. The Midwest closely followed, with a 2.7% upturn. In both the Eastern and Western regions, NOI's growth was considerably weaker than the two other regions. Furthermore, shopping centers in the South (93.7%) and East (92.8%) had the highest occupancy rates.

Overall, these positive performance metrics provided by the National Council of Real Estate Investment Fiduciaries (NCREIF) and collected from investment managers for approximately 1,000 shopping-center properties suggest that the shopping center industry is quite vibrant. Both base rents and NOI figures notably reflect that positive environment.

**Table 1:**  
U.S. Shopping Center Industry Performance  
U.S. Dollars Per Square Foot (SF), Unless Otherwise Noted

ALL SHOPPING CENTERS - NATIONAL	ANNUAL		QUARTERLY		
	2016	2017	2017-04	2018-01	2018-02
<b>INCOME AND EXPENSES (\$/SF)</b>					
<b>Total Operating Income</b>	\$27.36	\$28.09	\$7.13	\$7.17	\$7.10
% Change from Prior Year	+4.5	+2.7	+3.2	+2.5	+2.2
<b>Base Rent</b>	\$19.15	\$19.55	\$4.94	\$4.96	\$4.94
% Change from Prior Year	+4.3	+2.1	+2.2	+2.5	+1.7
<b>Total Operating Expenses</b>	\$8.58	\$8.91	\$2.31	\$2.31	\$2.24
% Change from Prior Year	+3.0	+3.8	+4.5	+4.5	+3.2
<b>Net Operating Income*</b>	\$18.70	\$19.10	\$4.80	\$4.85	\$4.84
% Change from Prior Year	+5.1	+2.1	+2.6	+1.6	+1.8
<b>Occupancy Rate (%)</b> , End of Period	93.2	93.1	93.1	93.2	92.8

\*Note: Total operating expenses displayed exclude ground rent paid by shopping centers to landowners; however, that cost is accounted for in net operating income figures.

Source: National Council of Real Estate Investment Fiduciaries (NCREIF)

**Table 2:**  
U.S. Shopping Center Industry Performance by Property Type  
U.S. Dollars Per Square Foot (SF), Unless Otherwise Noted

OPEN-AIR CENTERS	ANNUAL		QUARTERLY		
	2016	2017	2017-04	2018-01	2018-02
<b>Base Rent (\$/SF)</b>	\$17.43	\$17.69	\$4.46	\$4.50	\$4.47
% Change from Prior Year	+5.4	+1.5	+1.7	+2.8	+1.5
<b>Net Operating Income (\$/SF)*</b>	\$16.12	\$16.53	\$4.07	\$4.16	\$4.19
% Change from Prior Year	+6.7	+1.5	+2.7	+1.1	+2.9
<b>Occupancy Rate (%)</b> , End of Period	93.2	93.1	93.1	93.5	93.0
MALLS	ANNUAL		QUARTERLY		
	2016	2017	2017-04	2018-01	2018-02
<b>Base Rent (\$/SF)</b>	\$27.30	\$28.36	\$7.23	\$7.10	\$7.15
% Change from Prior Year	+1.3	+3.9	+4.0	+1.6	+2.2
<b>Net Operating Income (\$/SF)*</b>	\$30.92	\$32.09	\$8.24	\$8.13	\$7.91
% Change from Prior Year	+1.4	+3.8	+2.4	+3.0	-0.8
<b>Occupancy Rate (%)</b> , End of Period	93.6	93.5	93.5	92.4	92.2

\*Note: Net operating income includes ground rent paid by shopping centers to landowners.

Source: National Council of Real Estate Investment Fiduciaries (NCREIF)

**Table 3:**  
U.S. Shopping Center Industry Performance by Region  
U.S. Dollars Per Square Foot (SF), Unless Otherwise Noted

ALL SHOPPING CENTERS - REGIONS	ANNUAL		QUARTERLY		
	2016	2017	2017-04	2018-01	2018-02
<b>East</b>					
<b>Net Operating Income (\$/SF)*</b>	\$19.60	\$19.57	\$4.91	\$4.79	\$4.99
% Change from Prior Year	+1.8	-0.2	0.0	-0.3	+0.3
<b>Occupancy Rate (%)</b> , End of Period	93.7	93.6	93.6	93.6	92.8
<b>Midwest</b>					
<b>Net Operating Income (\$/SF)*</b>	\$16.15	\$16.33	\$4.11	\$4.33	\$4.20
% Change from Prior Year	+8.2	+1.1	+2.2	+8.8	+2.7
<b>Occupancy Rate (%)</b> , End of Period	92.1	92.0	92.0	92.0	91.6
<b>South</b>					
<b>Net Operating Income (\$/SF)*</b>	\$17.56	\$17.87	\$4.52	\$4.62	\$4.62
% Change from Prior Year	+7.5	+1.8	+3.5	+4.5	+3.0
<b>Occupancy Rate (%)</b> , End of Period	93.8	93.4	93.4	93.9	93.7
<b>West</b>					
<b>Net Operating Income (\$/SF)*</b>	\$19.26	\$19.83	\$4.96	\$5.06	\$4.86
% Change from Prior Year	+4.6	+2.9	+5.1	-0.1	-0.1
<b>Occupancy Rate (%)</b> , End of Period	92.9	92.7	92.7	93.0	92.6

\*Note: Net operating income includes ground rent paid by shopping centers to landowners.

Source: National Council of Real Estate Investment Fiduciaries (NCREIF)

➔ More data are available by browsing for *Shopping Center Income and Expenses* in [QuickStats](#).

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