Overall, the U.S. shopping center industry performed well in 2019 even though headwinds prevailed for some properties in the fourth quarter. ICSC Research, using data provided by the National Council of Real Estate Investment Fiduciaries (NCREIF), reports that the industry’s net operating income (NOI) continued to increase nationally in 2019 to a record high, ending the year at $19.63 per square foot (PSF)—1.6% higher than 2018. (See Chart 1.) In Q4-2019, NOI grew by 1.0%—the fifth consecutive quarterly increase. Total operating income of all U.S. shopping centers on a square-foot basis rose 1.9% in 2019 over the previous year, while operating expenses grew by 2.6%. (See Table 1.) The gain in operating income was boosted by a solid rise (+2.8%) in base rent during 2019, despite a slight year-over-year dip in Q4—the first in eight years. Occupancy rates throughout 2019 varied by quarter, ending at 92.5%.

By property type, as seen in Table 2, NOI in open-air centers (aggregating neighborhood, community and power centers) hit $4.32 PSF in the fourth quarter—a strong 4.2% increase from the same period in 2018. For all of 2019, NOI reached $17.03 PSF, 2.6% higher than 2018. Base rents also increased (+1.9%) in Q4-2019 and reached $18.57 PSF for all of 2019, 3.1% higher than 2018. Occupancy rates ended the year at 93.3%, just above Q4-2018 (93.1%).

Following a strong Q3-2019, the mall sector ended 2019 with base rent and NOI decreasing by 7.1% and 6.3%, respectively, over Q4-2018. In spite of this, base rent increased 2.0% for the year, reaching $18.01 PSF. NOI was lower by less than 1.0% over 2018, ending 2019 at $32.19 PSF. The decline in this sector is mainly attributable to regional malls, with their 2019 rent dropping 10.2% and NOI falling 12.2%. On the other hand, super-regional malls saw gains in both indicators as rent rose 6.4% and NOI grew 2.8% in 2019 over 2018.

Regionally, NOI for U.S. shopping centers varied during the fourth quarter of 2019. (See Table 3.) The strongest performance was in the West, increasing by 2.5% from the same period last year. This gain capped off a very strong year for properties in the West as, NOI increased the most there (+4.3%), aided by a fairly weak 2018. Centers in the East (+1.3%) and South (+0.4%) also achieved positive yearly gains, while those in the Midwest dropped 5.8% for the year.

These performance metrics provided by NCREIF and collected from investment managers for approximately 1,000 shopping center properties demonstrate resiliency and a generally healthy, dynamic industry.

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*Note: The net operating income figures displayed here account for ground rent paid by shopping centers to landowners; however, that cost is excluded from the total operating expenses figure shown.

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