Industry Insights

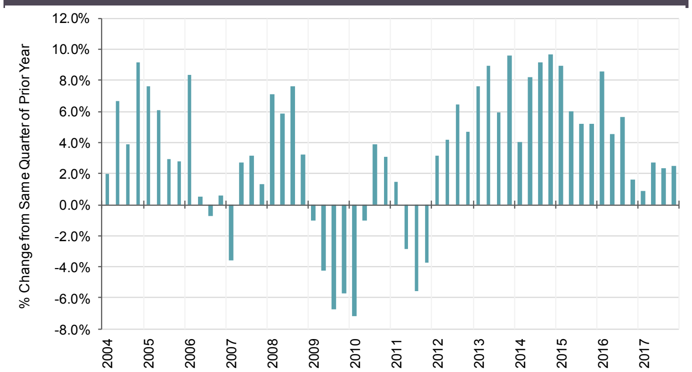
March 7, 2018

U.S. Shopping-Center Industry Records Solid Performance in 2017

Industry Occupancy Rate Holds Firm

How is business in the U.S. shopping-center industry? Well, the financial statistics suggest it is pretty good. 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 2017. Last year, total operating income of all U.S. shopping centers on a square foot basis rose 2.6% from the previous year, while operating expenses grew by 3.8%. (See Table 1.) As a result, ***NOI per square foot posted a 2.1% gain from 2016, which extended the industry's winning streak***. As shown in Chart 1, fourth quarter NOI for all centers advanced 2.5%, better than the 1.6% increase from the same quarter of 2016. These shopping-center performance data are based on NCREIF's proprietary database of U.S. property operating information collected from investment managers for approximately 1,000 shopping-center properties.

Chart 1:
U.S. Shopping-Center Net Operating Income by Quarter



In another bright spot for the industry, ***occupancy rates remained strong***. Despite some companies store closures, shopping centers have successfully integrated new tenants into their properties. In addition to food and beverage (F&B) establishments, other concepts—many of them also service-based—address consumers' preference for more amenities, convenience and an experience. Nationally, non-retail/non-F&B tenants occupied 22.4% of total shopping-center gross leasable area, with arts/entertainment/recreation and health care accounting for slightly more than 5% of that. (CoStar Realty Information Inc., www.costar.com)

Regionally, NOI for U.S. shopping centers varied in 2017. The ***strongest performance was in the West***, posting a 3.0% gain for the year and boosted by a particularly robust fourth quarter (+5.2%). The South followed, which saw its NOI up by 1.7%, and in the Midwest, it increased by a modest 1.1% last year compared with 2016. NOI in the East declined by 0.2%.

By format, all types of shopping centers posted a gain. ***Regional malls in particular performed very well, as their NOI surged ahead*** by a hefty 13.0% from the previous year, while other formats saw more moderate NOI advances. (See Table 2.) Despite having the lowest annual year-over-year increase, community centers had a very strong fourth quarter, increasing 6.0%, second only to regional malls.

The truth about the shopping-center industry is in the numbers, not sensationalized narratives that ignore widespread progress. ***This latest batch of performance data suggests that the industry is continuing to do quite well*** as it navigates through a period of change, adapting to a new, consumer-driven environment. As ICSC surveys have shown, consumers want more engaging and exciting experiences and shopping centers will be at the forefront to satisfy that appetite.

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

ALL SHOPPING CENTERS - NATIONAL	ANNUAL			QUARTERLY	
INCOME AND EXPENSES ($/SF)	2015	2016	2017	2017-03	2017-04
Total Operating Income	$26.23	$27.39	$28.11	$7.01	$7.13
% Change from Prior Year	+6.0	+4.4	+2.6	+3.1	+3.0
Total Operating Expenses	$8.33	$8.59	$8.91	$2.21	$2.31
% Change from Prior Year	+5.2	+3.1	+3.8	+4.8	+4.2
Net Operating Income*	$17.82	$18.72	$19.11	$4.78	$4.80
% Change from Prior Year	+6.3	+5.1	+2.1	+2.3	+2.5
Occupancy Rate (%, End of Period)	93.1	93.2	93.1	93.2	93.1

*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 Center Type
(U.S. Dollars Per Square Foot (SF), Unless Otherwise Noted)

SELECTED SHOPPING CENTERS SEGMENTS - NATIONAL	ANNUAL			QUARTERLY	
NET OPERATING INCOME ($/SF)*	2015	2016	2017	2017-03	2017-04
Neighborhood Centers	$16.79	$17.83	$18.09	$4.56	$4.50
% Change from Prior Year	+5.3	+6.2	+1.5	+1.4	+1.0
Community Centers	$13.75	$14.91	$15.09	$3.83	$3.79
% Change from Prior Year	+10.2	+8.5	+1.2	+0.4	+6.0
Power Centers	$13.87	$14.46	$14.71	$3.52	$3.57
% Change from Prior Year	+6.1	+4.2	+1.8	-3.4	+0.3
Regional Malls	$20.67	$21.85	$24.70	$6.27	$6.38
% Change from Prior Year	+7.5	+5.7	+13.0	+16.0	+9.7
Super-Regional Malls	$34.88	$35.04	$35.47	$8.78	$9.09
% Change from Prior Year	+4.3	+0.5	+1.2	+5.4	+0.3

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

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

More operational performance data are available by browsing for *Shopping Center Income and Expenses* in QuickStats.