



Industry Insights

May 3, 2018

2018 First-Quarter Results Show a Healthy Sector Industry Occupancy Rate in Line With Prior Years

Contrary to the insinuations of some sensational headlines in the media, **shopping center occupancy rates remained strong in the first quarter of 2018**, reaching 93.2%. (See Table 1.) This is slightly above Q4-2017 (93.1%) and Q1-2017 (92.4%), reflecting **landlords' success in continually refreshing their tenant mix and replacing departing tenants with others—both retail and services**. Moreover, those new tenants' inclusion did not come at the expense of lower base rents, as these **increased by 2.3%** in Q1-2018 compared with Q1-2017—\$4.95 vs. \$4.84 per square foot (psf), respectively. Overall, **net operating income (NOI) at shopping centers across the nation rose by 1.4%** in Q1-2018 compared with Q1-2017 (\$4.84 vs. \$4.77 psf, respectively)—another excellent sign of industry health.

By property type, as shown in Table 2, open-air centers (aggregate of neighborhood, community and power centers) saw their **occupancy rates reach 93.5%** in Q1-2018, up from 93.1% in Q4-2017 and a full percentage point higher than Q1-2017 (92.5%). The most current figure is also the highest rate since Q3-2016 (93.6%). **Base rents (+2.6%) and NOI (+0.8%) also grew in Q1-2018 on a year-over-year basis**.

Malls performed solidly last quarter, too. Compared with Q1-2017, **base rents at malls grew by 1.6% in Q1-2018 and NOI by 3.0%**. Although occupancy rates slipped to 92.4% in Q1-2018—the weakest since Q2-2017 (92.3%)—it remains significantly higher than the lowest (88.6%) recorded during the last recession in Q3-2009.

Regionally, NOI for U.S. shopping centers varied during the first three months of 2018. (See Table 3.) **The strongest performance was in the Midwest, surging ahead by a hefty 8.8%** from the same period last year, aided by a substantial increase among neighborhood centers in that part of the country. The South followed, with a 4.1% increase. In both the Eastern and Western regions, NOI declined marginally, -0.3% and -0.1%, respectively. Furthermore, shopping centers in the South (93.8%) and East (93.6%) 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 vibrant. Although the rate at which they have grown has varied, **both base rents and NOI have now increased 25 consecutive quarters** while occupancy rates, despite some big-name retailer bankruptcies and store closures, have been stable and are nearly at pre-recession levels.

ALL SHOPPING CENTERS - NATIONAL	ANNUAL		QUARTERLY		
	2016	2017	2017-03	2017-04	2018-01
INCOME AND EXPENSES (\$/SF)					
Total Operating Income	\$27.38	\$28.09	\$7.01	\$7.12	\$7.17
% Change from Prior Year	+4.4	+2.6	+3.0	+3.0	+2.3
Base Rent	\$19.16	\$19.54	\$4.91	\$4.94	\$4.95
% Change from Prior Year	+4.3	+2.0	+2.9	+2.1	+2.3
Total Operating Expenses	\$8.59	\$8.91	\$2.21	\$2.31	\$2.31
% Change from Prior Year	+3.1	+3.7	+4.7	+4.2	+4.2
Net Operating Income*	\$18.72	\$19.10	\$4.78	\$4.79	\$4.84
% Change from Prior Year	+5.0	+2.1	+2.3	+2.4	+1.4
Occupancy Rate (% , End of Period)	93.2	93.1	93.2	93.1	93.2

*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)

OPEN-AIR CENTERS	ANNUAL		QUARTERLY		
	2016	2017	2017-03	2017-04	2018-01
Base Rent (\$/SF)	\$17.42	\$17.67	\$4.44	\$4.45	\$4.49
% Change from Prior Year	+5.3	+1.4	+1.5	+1.4	+2.6
Net Operating Income (\$/SF)*	\$16.12	\$16.34	\$4.09	\$4.06	\$4.15
% Change from Prior Year	+6.6	+1.4	+0.2	+2.5	+0.8
Occupancy Rate (% , End of Period)	93.2	93.1	93.3	93.1	93.5
MALLS					
Base Rent (\$/SF)	\$27.30	\$28.37	\$7.15	\$7.23	\$7.10
% Change from Prior Year	+1.4	+3.9	+7.5	+4.0	+1.6
Net Operating Income (\$/SF)*	\$30.92	\$32.10	\$7.99	\$8.24	\$8.13
% Change from Prior Year	+1.5	+3.8	+7.8	+2.4	+3.0
Occupancy Rate (% , End of Period)	93.6	93.5	93.0	93.5	92.4

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

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

ALL SHOPPING CENTERS - REGIONS	ANNUAL		QUARTERLY		
	2016	2017	2017-03	2017-04	2018-01
East					
Net Operating Income (\$/SF)*	\$19.61	\$19.58	\$4.89	\$4.91	\$4.79
% Change from Prior Year	+1.6	-0.2	+0.7	-0.1	-0.3
Occupancy Rate (% , End of Period)	93.7	93.6	93.8	93.6	93.6
Midwest					
Net Operating Income (\$/SF)*	\$16.16	\$16.33	\$4.15	\$4.11	\$4.33
% Change from Prior Year	+8.2	+1.1	+2.1	+2.2	+8.8
Occupancy Rate (% , End of Period)	92.1	92.0	91.2	92.0	92.0
South					
Net Operating Income (\$/SF)*	\$17.58	\$17.86	\$4.44	\$4.50	\$4.60
% Change from Prior Year	+7.7	+1.6	+1.1	+3.1	+4.1
Occupancy Rate (% , End of Period)	93.8	93.3	93.2	93.3	93.8
West					
Net Operating Income (\$/SF)*	\$19.29	\$19.86	\$4.95	\$4.97	\$5.06
% Change from Prior Year	+4.5	+3.0	+2.2	+5.1	-0.1
Occupancy Rate (% , End of Period)	92.9	92.7	93.3	92.7	93.0

*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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