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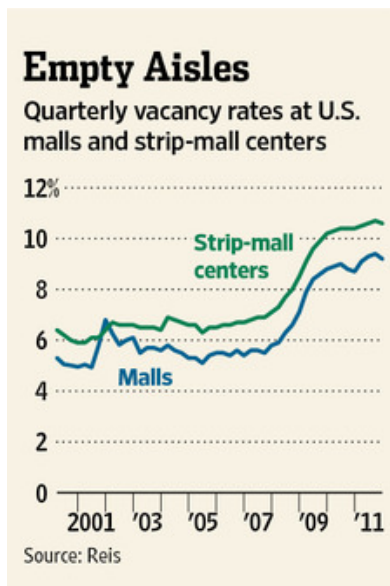
For Malls, Occupancy Firms Up

By KRIS HUDSON

U.S. malls and shopping centers experienced a slight improvement in occupancy during the fourth quarter, a relief for landlords that have been battling lackluster demand from retailers for most of the downturn.

But data service Reis Inc. cautioned that any recovery remains precarious and the outlook for this year is mixed, given the clouds hovering over the economy. While some retailers are expanding—such as Forever 21 Inc., Dick's Sporting Goods Inc. and [Dollar General Corp.](#)—landlords can expect more headaches from high-profile store closures by companies such as Sears Holdings Corp. and Gap Inc.

"It's too soon to pronounce a turnaround at this point," said Victor Calanog, chief economist at Reis, which is based in New York.



The fourth quarter typically is the strongest for retail landlords as well as their tenants. Still, the fourth quarter of last year was one of the strongest since the recession hit, in terms of rising rents and occupancies.

Malls in the top 80 U.S. markets posted an average vacancy rate of 9.2% in the quarter, down from the 11-year high of 9.4% in the third quarter, according to Reis, which began tracking mall data in 2000. Mall vacancies had been climbing steadily for most of the downturn since 2007, when the vacancy rate fell as low as 5.5%.

Demand for space at neighborhood and community shopping centers also strengthened in the quarter, with stores occupying an additional 3.1 million square feet in the top 80 markets. Because of new construction, vacancy in this category remained at 11%, where it has been for three quarters, a level last seen in 1991.

At Brixmor Property Group Inc., owner of 621 shopping centers across the U.S., average occupancy increased to 88.1% last year from 87.6% in 2010. Michael Carroll, Brixmor's president and chief executive, said

Brixmor signed leases in the fourth quarter with retailers such as Kohl's Corp., Wal-Mart Stores Inc., [Ross Stores Inc.](#), Petco Animal Supplies Inc. and Ulta Salon, Cosmetics & Fragrance Inc.

Owners of retail property have been hit hard during the downturn by overbuilding, consumer caution and competition from online shopping. In the three years covering 2008 through 2010, retailers at neighborhood and community shopping centers vacated a total of 31.6 million square feet, according to Reis.

But the most recent quarter's results indicate that the worst might be over, especially with the economy adding jobs. A decent holiday shopping season also gave the retail property sector a boost, with 23 national chains

reporting an average sales gain of 3.4% in November and December at stores open at least a year, according to Retail Metrics Inc.

"Fourth-quarter sales outpaced [retailers'] expectations," said Naveen Jaggi, senior managing director of retailer service at brokerage CB Richard Ellis Group Inc. He said retailers are "cautiously optimistic" about this year.

The average annual rent at U.S. malls rose to \$38.92 a square foot in the fourth quarter, a 0.3% increase from the third quarter and the second consecutive quarterly gain, according to Reis. Mall rents had been mostly flat or declining since 2008.

Average annual rents at U.S. strip centers increased 0.1% in the fourth quarter to \$19.04 a square foot after 13 consecutive quarters of remaining flat or declining.

Retail landlords also have been helped by a virtual shutdown in new store construction, meaning they face less competition for tenants. Only 4.5 million square feet of shopping-center space opened in 2010, the lowest figure in 31 years, according to Reis. Last year was slightly higher, with only 4.9 million square feet being delivered.

"That's giving the sector some time to actually recover," said Reis's Mr. Calanog.

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