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U.S. Shopping Center Leasing Rises as Consumer Confidence Climbs

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By Hui-yong Yu

Jan. 9 (Bloomberg) -- U.S. shopping centers had their first net gain in occupied space in four years as consumer confidence and job growth began to strengthen, Reis Inc. said.

Neighborhood and community shopping centers -- usually anchored by grocery stores, drugstores or discount retailers -- had a net increase of 3.18 million square feet (295,400 square meters) in the fourth quarter, the most since 10.1 million square feet in the last three months of 2007, the New York-based real estate research firm said in a report today.

"While this represents welcome news, we remain wary about pronouncing a turnaround until we observe a few more quarters of improvement," Victor Calanog, Reis's head of research, said in the report. The fourth quarter tends to be the strongest period of the year for retail leasing, he said.

Confidence about the economic recovery grew last quarter amid reports showing that job creation is accelerating. U.S. employers added 300,000 workers in November and December, pushing the unemployment rate down to 8.5 percent, the lowest since February 2009, according to the Labor Department. Consumer confidence reached an eight-month high in December, according to a Conference Board index.

Vacancies at shopping centers averaged 11 percent in the fourth quarter, unchanged from the previous three months and up from 10.9 percent a year earlier, Reis said. The fourth quarter's rate was the highest since 1990, when it was 11.1 percent, and was driven up by the 1.89 million square feet of new retail properties that came to market, the researcher said.

Asking Rents Rise

At regional and super-regional malls, landlords' asking rents rose to an average of \$38.92 per square foot from \$38.81 in the third quarter and \$38.79 a year earlier, according to Reis. Vacancies declined to 9.2 percent from 9.4 percent in the third quarter, the highest since Reis began publishing mall data in 2000. The rate was up from 8.7 percent a year earlier.

Retail landlords have struggled since the recession that ended in 2009 as weak sales cut tenant demand for space and competition from online stores grows. Sears Holdings Corp., the biggest U.S. department-store chain, said last month that it would close as many as 120 locations after four years of declining sales. Gap Inc., the country's largest apparel retailer, plans to open more stores outside the U.S. as part of a plan to generate 30 percent of sales from international markets by 2013.

Discount retailers are helping to shrink some of the vacancies, Reis said. Dollar General Corp. said Jan. 3 it plans to open 625 stores in the U.S. this year.

"Some retailers are aggressively pursuing expansion plans because there are deals to be had for retail space," Calanog said in the report.

Vacancies haven't changed much for most of the past two years largely because new supply has been restrained, he said. About 4.9 million square feet of new shopping center space was completed last year, compared with 4.5 million finished in 2010, which was the lowest figure in Reis's 31 years of data.

"Any recovery for shopping centers remains precarious," Calanog said.

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