

# 2023 MID-YEAR SHOPPING CENTER UPDATE

Focusing on Shopping Centers and Multi-Tenant Retail

EQUITY RETAIL BROKERS

David DeRienzo, Investment Sales

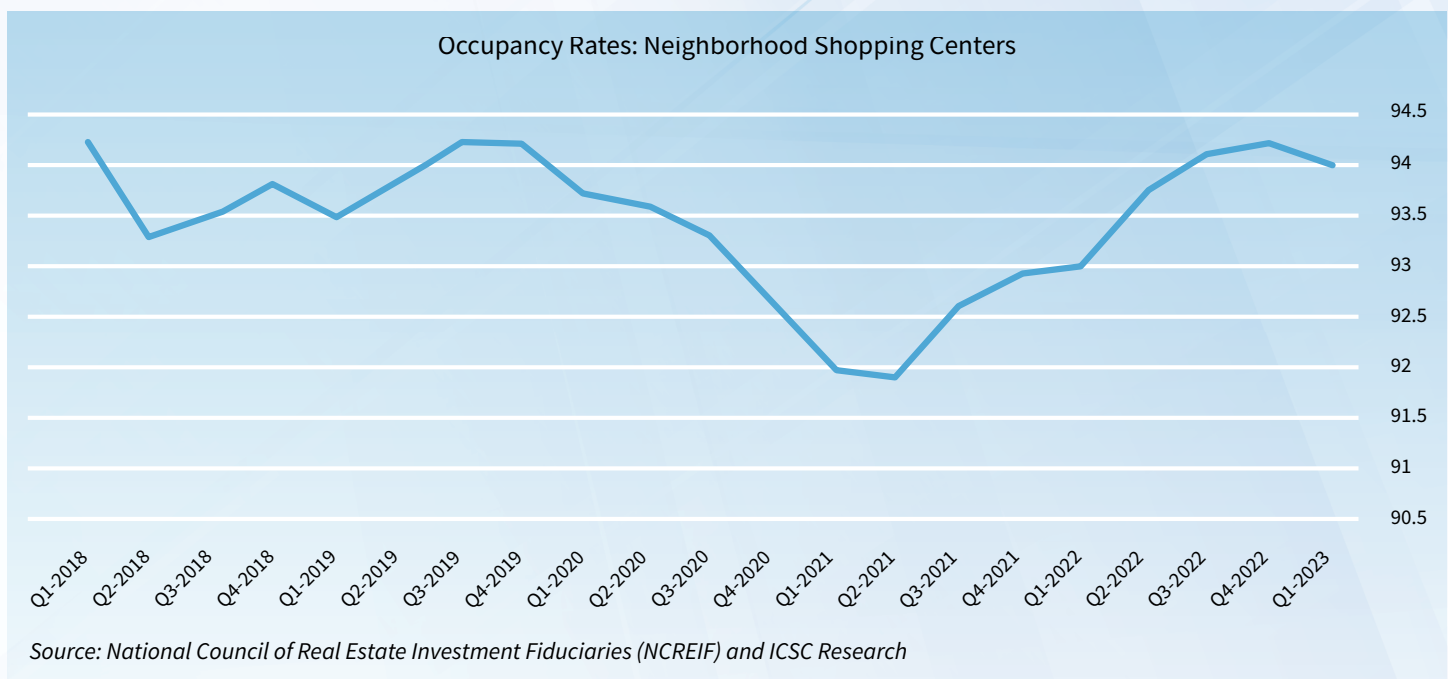
## Interest Rates and the Economy

As we wrap up the first half of the year, interest rates and economic uncertainty have led to a noticeable shift in investment sales activity. From March 2022 to May 2023, the Federal Reserve implemented 10 consecutive interest rate hikes, marking the most rapid increase in decades. This swift adjustment has posed challenges for investors, who are grappling with the changing financial landscape. Refinancing activity in commercial real estate has slowed as many property owners still benefit from rates lower than the current levels. Recently, many lending term sheets show interest rates well above 6%. This is leading to the “golden handcuffs” of shopping center ownership: the in-place cash flow of a shopping center makes it difficult to replicate with a replacement property at higher debt-service levels. Many of our clients are in this predicament. This, in turn, is leading to a decrease in available inventory and creating a log jam scenario.

After the June Federal Reserve meeting and interest rate pause, uncertainties persist regarding the Federal Reserve’s future trajectory—whether it will stick to a flat trend or make changes later this year. Consequently, investors find themselves in a familiar state of uncertainty, navigating an unpredictable market environment. This is leading to a supply imbalance with many buyers and sellers anxiously awaiting clarity. However, due to low inventory levels, sellers that have decided to list their property have received much higher view counts and expanded audience size. Shopping centers most likely to sell in this environment are listed at competitive prices, and have minimal deferred maintenance and strong lease terms, even among smaller, non-credit tenants.

## Shopping Center Performance Metrics

Supply chain delays, long lead times, and rising inflation are still joining forces and putting pressure on shopping center performance. However, steady increases in average rents combined with occupancy rates at their highest level in years, are offering relief for inflation-weary owners. Overall metrics continue to strengthen with net operating income increasing year-over-year at nearly 7%.



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## Current Shopping Center Metrics (ICSC): How Does Yours Compare?

Neighborhood Shopping Center Metrics U.S. Dollars Per Square Foot (PSF), Unless Otherwise Noted										
Income and Expenses	Annual					Quarterly (Ending Month)				
	2018	2019	2020	2021	2022	Mar-2022	Jun-2022	Sep-2022	Dec-2022	Mar-2023
<b>Total Operating Income</b>	<b>\$26.89</b>	<b>\$27.57</b>	<b>\$26.93</b>	<b>\$27.64</b>	<b>\$28.73</b>	<b>\$7.02</b>	<b>\$7.14</b>	<b>\$7.01</b>	<b>\$7.56</b>	<b>\$7.52</b>
% Change from Prior Year	1.2%	2.5%	-2.3%	2.6%	3.9%	3.7%	0.4%	2.6%	9.2%	7.1%
Base Rent	\$19.61	\$20.18	\$19.73	\$20.00	\$20.55	\$5.01	\$5.16	\$5.11	\$5.26	\$5.36
Share of Income	73.0%	73.2%	73.3%	72.3%	71.5%	71.4%	72.3%	72.9%	69.6%	71.3%
Contingent Rent	\$0.18	\$0.17	\$0.16	\$0.25	\$0.33	\$0.10	\$0.08	\$0.05	\$0.09	\$0.11
Share of Income	0.7%	0.6%	0.6%	0.9%	1.1%	1.5%	1.2%	0.8%	1.1%	1.4%
Reimbursements	\$6.42	\$6.58	\$6.50	\$6.80	\$7.10	\$1.74	\$1.74	\$1.71	\$1.91	\$1.90
Share of Income	23.9%	23.9%	24.1%	24.6%	24.7%	24.8%	24.3%	24.4%	25.3%	25.2%
Other	\$0.67	\$0.63	\$0.54	\$0.60	\$0.75	\$0.16	\$0.16	\$0.13	\$0.30	\$0.15
Share of Income	2.5%	2.3%	2.0%	2.2%	2.6%	2.3%	2.2%	1.9%	4.0%	2.0%
<b>Total Operating Expenses</b>	<b>\$8.57</b>	<b>\$8.83</b>	<b>\$9.79</b>	<b>\$8.90</b>	<b>\$9.37</b>	<b>\$2.34</b>	<b>\$2.25</b>	<b>\$2.27</b>	<b>\$2.51</b>	<b>\$2.49</b>
% Change from Prior Year	2.4%	3.1%	10.8%	-9.1%	5.3%	-1.4%	-0.9%	8.3%	16.2%	6.4%
Administrative	\$0.42	\$0.47	\$0.68	\$0.51	\$0.43	\$0.11	\$0.08	\$0.11	\$0.13	\$0.14
Share of Expenses	4.9%	5.3%	7.0%	5.7%	4.6%	4.5%	3.5%	4.9%	5.3%	5.5%
Management Fees	\$0.88	\$0.91	\$0.85	\$0.91	\$0.94	\$0.24	\$0.23	\$0.23	\$0.24	\$0.25
Share of Expenses	10.2%	10.3%	8.7%	10.2%	10.0%	10.1%	10.4%	10.0%	9.5%	10.1%
Marketing	\$0.08	\$0.09	\$0.10	\$0.09	\$0.10	\$0.02	\$0.02	\$0.02	\$0.04	\$0.02
Share of Expenses	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%	0.7%	1.0%	1.5%	1.0%
Maintenance	\$1.57	\$1.68	\$1.61	\$1.79	\$2.01	\$0.48	\$0.49	\$0.47	\$0.57	\$0.52
Share of Expenses	18.3%	19.1%	16.4%	20.1%	21.5%	20.4%	21.9%	20.5%	22.8%	20.9%
Utilities	\$0.57	\$0.59	\$0.54	\$0.58	\$0.64	\$0.15	\$0.16	\$0.17	\$0.16	\$0.18
Share of Expenses	6.7%	6.6%	5.5%	6.5%	6.9%	6.5%	7.1%	7.4%	6.6%	7.2%
Insurance	\$0.30	\$0.33	\$0.39	\$0.46	\$0.48	\$0.11	\$0.12	\$0.12	\$0.13	\$0.13
Share of Expenses	3.5%	3.7%	4.0%	5.1%	5.1%	4.8%	5.1%	5.5%	5.0%	5.1%
Property Taxes	\$3.89	\$3.93	\$3.97	\$4.06	\$4.12	\$1.07	\$1.00	\$1.01	\$1.03	\$1.09
Share of Expenses	45.4%	44.5%	40.5%	45.7%	44.0%	45.7%	44.6%	44.7%	41.2%	43.7%
Other	\$0.86	\$0.83	\$1.65	\$0.50	\$0.65	\$0.17	\$0.15	\$0.13	\$0.20	\$0.16
Share of Expenses	10.0%	9.5%	16.8%	5.6%	6.9%	7.0%	6.6%	5.9%	8.0%	6.5%
<b>Net Operating Income</b>	<b>\$18.18</b>	<b>\$18.63</b>	<b>\$17.04</b>	<b>\$18.67</b>	<b>\$19.26</b>	<b>\$4.66</b>	<b>\$4.86</b>	<b>\$4.72</b>	<b>\$5.02</b>	<b>\$4.99</b>
% Change from Prior Year	0.5%	2.5%	-8.5%	9.5%	3.2%	6.5%	0.7%	-0.2%	5.9%	7.1%

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

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## Artificial Intelligence

The first half of 2023 witnessed significant advancements in technology that are reshaping the commercial real estate industry (and to a greater extent society as a whole). Data aggregation tools like Placer.ai have emerged as valuable resources, providing insights into foot traffic and its direct impact on tenant performance. This newfound transparency has leveled the playing field between landlords and tenants, as well as buyers and sellers. Furthermore, innovative applications of technology continue to emerge, revolutionizing various aspects of the industry. Tasks such as drafting tenant communication letters, translating complex legal jargon, enhancing Excel spreadsheets, and creating compelling marketing materials for vacant spaces are just a glimpse of the vast potential of these technological advancements. These developments demonstrate that technology, in various forms, is reshaping the landscape of commercial real estate and will undoubtedly continue to do so in the future.

## Recent Transactions

Stringent lending conditions and rising interest rates have made financing more challenging, impacting the ability and willingness of investors to engage in commercial real estate transactions. However, while declining sales activity poses challenges, it also presents opportunities for astute investors to acquire properties at potentially more favorable prices and negotiate advantageous deals. As the global economy stabilizes and adapts to new norms, commercial real estate sales activity is expected to gradually recover, driven by renewed investor confidence and evolving market demands.

## Sales Comps

Property Name	Tenants	Address	City	State	Sale Price	Building SF	\$/Sq.Ft.	Sale Date
Lenape Square	Dentist, Party Hall, Mexican Food, Salon, Nail, Tanning, Karate, LabCorp	240 Mathistown Rd	Little Egg Harbor Township	NJ	\$3,100,000	21,415	\$145	11/14/2022
Stratford Shopping Center	Goodwill, Mexican Restaurant, Pizza	222 S White Horse Pk	Stratford	NJ	\$4,625,000	41,108	\$113	11/30/2022
Coopersburg Common	Giant, Subway, Italian Restaurant	216 E Fairmount St	Coopersburg	PA	\$10,000,000	95,186	\$105	12/7/2022
Nylon Capital Shopping Center	Dollar Tree, Italian Restaurant, largely vacant	1004-1021 W Stein Hwy	Seaford	DE	\$3,257,515	155,252	\$21	12/7/2022
Crestwood Village Shopping Center	Pizza, Florist, Convenience Store, Tobacco, etc.	550 Route 530	Whiting	NJ	\$3,200,000	32,150	\$100	12/15/2022
Pittston Crossings	AT&T, Wine and Spirits, Sherwin Williams, Pet Supplies Plus, Sally Beauty, Great Clips	390 Highway 315	Pittston	PA	\$7,050,000	50,747	\$139	12/16/2022
Yorktowne Plaza	Dominos, Social Security, Salon, Pet Supply, Dance Studio etc.	2850 Yorktowne Blvd	Brick	NJ	\$6,920,000	41,915	\$165	12/19/2022
CVS Strip Center	CVS, Sherwin, small shop tenants	76 W Landis Ave	Vineland	NJ	\$4,279,375	40,700	\$105	12/20/2022
Vermillion Square	Statefarm, Nails, Urgent Care, Fitness, Nationwide Insurance, etc.	8917-8933 New Falls Rd	Levittown	PA	\$8,750,000	45,222	\$193	12/20/2022
Roseville Square	SaveMart, Spherion Staffing, and Delux Paints	241 West Roseville Rd	Lancaster	PA	\$6,250,000	48,725	\$128	12/21/2022
Greater Lewiston Shopping Center	Weis, Goodwill, Urgent Care, Anytime Fitness	224 N Logan Blvd	Burnham	PA	\$9,500,000	184,922	\$51	12/22/2022



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Ashbridge Square	Ashley Furniture HomeStore, Dollar Tree, Jo-Ann Fabrics, Christmas Tree Shops, Staples, Chick-fil-A, Patient First, and Wine & Spirits	845-965 E Lancaster Ave	Downingtown	PA	\$33,000,000	386,248	\$85	12/27/2022
Hunterdon Commons	Retro Fitness, Allstate, Cleaners, Bounce City, Nail, Lighting, etc	176 Highway 202	Flemington	NJ	\$5,214,750	60,000	\$87	1/4/2023
Aramingo Plaza	Forman Mills, Citizens Bank, AT&T, VisionWorks, Checkers	3500 Aramingo Ave	Philadelphia	PA	\$10,567,992	57,220	\$185	1/12/2023
Strip Center	Karate, Physical Therapy, Fitness, Windowrama	510 Route 18	East Brunswick	NJ	\$3,200,000	11,697	\$274	1/18/2023
ShopRite Center	ShopRite, Dolce Vita, Edible Arrangements, Farmers Insurance Group, and Maria's Salon	3600 E Landis Ave	Vineland	NJ	\$9,500,000	123,664	\$77	1/25/2023
Strip Center	Dominos, Hertz, Autoparts, Fireplace Store	683-695 State Rd	Emmaus	PA	\$3,600,000	15,481	\$233	1/25/2023
Cloister Shopping Center	AT&T, UPS, Dominos, Family Dollar, Subway, Pet Supplies Plus, Hair, etc	100-138 N Reading Rd	Ephrata	PA	\$5,226,754	61,442	\$85	1/26/2023
Creekview Shopping Center	Amazon Fresh, Chipotle, Bank of America, Petco	377-397 Easton Rd	Warrington	PA	\$24,650,000	134,900	\$183	2/8/2023
New Britain Town Center	Dollar Tree, GIANT, Old School Burgers, McCabe & Brady Physical Therapy, AutoZone	100 Town Center Dr	New Britain	PA	\$13,237,500	124,197	\$107	2/13/2023
Eagle Valley Mall	Dollar General, UPS Store, Nails, smoke shop, etc.	100-260 Eagle Valley Mall	East Stroudsburg	PA	\$3,050,000	53,610	\$57	2/24/2023
Washington Strip Center	Mattress Warehouse, Firehouse Subs, Aspen Dental, Quest, Batteries Plus	360 Washington Rd	Washington	PA	\$6,430,000	19,882	\$323	2/28/2023
Brandywine Plaza	Subway, State Farm Insurance, Pizza, Fitness, Nails, etc.	2237 Paxton Church Rd	Harrisburg	PA	\$4,680,000	44,241	\$106	3/31/2023
Quality Center	Great Clips, DXL, Adidas, Dollar Tree, T-Mobile, Nails, etc	2495 Lincoln Hwy E	Lancaster	PA	\$8,500,000	49,631	\$171	5/10/2023
CVS Strip Center	CVS, Dunkin Donuts, Salon	321 S Main St	Manville	NJ	\$4,400,000	13,904	\$316	5/26/2023

*Disclaimer: This is a list of recently sold multi-tenant retail properties. The list is compiled for our clients to give them an understanding of sold pricing for retail properties in the region. The information has been gathered from a variety of sources. Some of these properties were sold by Equity Retail Brokers, while others were sold by other brokers or directly by the owner. Equity Retail Brokers makes no claims as to the accuracy of this information.*

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