

Strip Centers Shine as Some Shoppers Sour on Malls

Grocery store-anchored or not, the throwback shopping centers appeal for proximity, convenience

[Esther Fung](#) Jan. 14, 2020 7:00 am ET



The American strip center, such as Coral Creek Shops in Coconut Creek, Fla., represents an enduring retail model.

Photo: RPT Realty

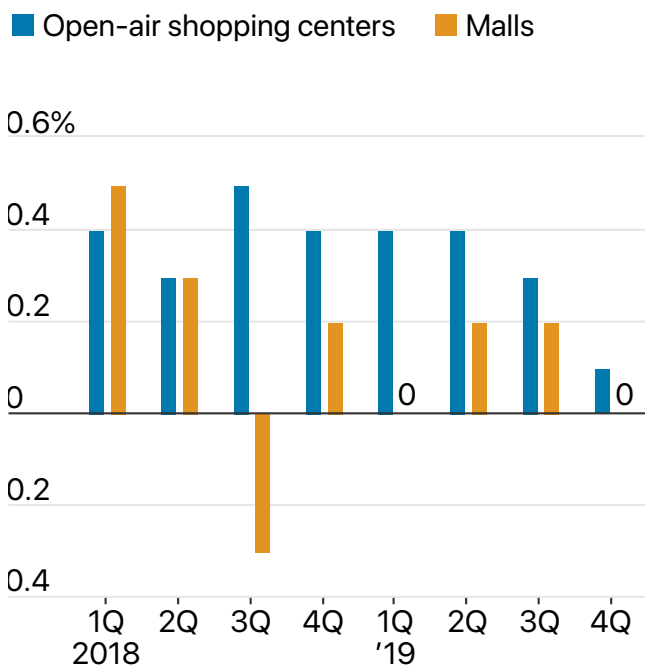
Jonathan Moukhtafi, a chiropractor in Coconut Creek, Fla., isn't big on spending time at shopping malls. But he finds himself going most every week to the Coral Creek Shops.

"My bank is there, my wife's hair stylist is there, I send packages from there," said Mr. Moukhtafi, who lives less than a mile away. "Things are close, I like that."

Marked Down

Percentage change in asking rents

Source: REIS Moody's Analytics



While many [stock-market investors](#) have soured on [the mall experience](#), some are still flocking to a more mundane type of retail: strip centers and grocery-store-anchored shopping centers.

The centers, which predate the American mall, offer routine necessities such as groceries for dinner, a gym workout or a visit to the dentist, in contrast to special purchases typically made at indoor malls, like a toy or a new dress.

Whereas mall owners hope to entice customers to spend an hour or more browsing the property, strip-center landlords say they simply want to offer stores and services that bring back local shoppers more than once a week.

“Retailers want their stores in the line of sight when people are dropping the kids off, or going to the gym,” said Brian Harper, chief executive officer of New York-based [RPT Realty](#), which owns 48 open-air or grocery-anchored shopping centers across 13 states.

Share prices of strip-center REITs gained 8.6% in the past 12 months. While that trailed the S&P 500 stock index’s 29.2% return over that period, the REITs performed much better than the 19.3% decline in the share price of mall landlords, according to data from FactSet.

Strip centers have a number of advantages over other retail, analysts say. Online purchases of groceries have taken in only a limited number of cities, making the centers more internet-resistant and likely more resilient during a recession. The centers are generally smaller than malls and, depending on their location, could appeal to a wider selection of tenants looking for tighter spaces and more visibility on major roads.

Institutional investors also have shown an appetite. Last month, the Singapore sovereign-wealth fund GIC invested \$118.3 million for a 48.5% interest in five open-air centers in Florida, Missouri and Michigan. Operated by RPT Realty, the centers range from around 97,000 square feet to 263,000 square feet.

That included the Coral Creek Shops, which has a Publix grocery store, [Bank of America](#) branch, a UPS store and restaurants. Around 119,000 people live within a 3-mile radius.

Even retailers with big e-commerce operations are often eager for a presence in such locations, as well as in enclosed, busy malls, because online deliveries are becoming more costly due to the high percentage of returns and greater demand for speedy deliveries.

[Walmart](#) and Target have rolled out curbside pickup. Other retailers have been ramping up their buy-online, pickup in-store capabilities.

“The initial gut reaction is that it’s all going online, but sometimes, it’s cheaper to use the store as a distribution channel,” said Conor Flynn, chief executive officer at Jericho, N.Y.,-based [Kimco Realty](#) Corp., an owner and operator of open-air shopping centers.

Not all the centers are immune to factors pressuring the retail landscape. Average asking rents in the open-air shopping centers and strip centers in 77 metro areas in the U.S. rose 1.2% in 2019, down from 1.6% and 2.0% recorded in 2018 and 2017, respectively, according to REIS Moody’s Analytics Inc.

The vacancy rate at open-air shopping centers and strip centers reached 10.2% at the end of the fourth quarter, up from 10.1% in the third quarter and generally in line with levels recorded in 2018. The vacancy rate in enclosed malls reached 9.7% in the fourth quarter of 2019, the highest level in 20 years.

“If vacancies continue to rise, they should not do so at a rapid rate,” said Barbara Denham, senior economist at REIS Moody’s Analytics, because consumers are spending more on fitness, entertainment and eating out.

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