

Shopping malls reel as vacancy rates soar

Rents have fallen the most in 10 years, wiping out several years' worth of gains. A recovery could be a long way off.

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Retailers may have survived the holidays, but it's not a pretty picture for malls in the U.S.

Vacancies hit an 18-year high of 10.6% in the fourth quarter, according to real-estate research firm Reis. Regional malls didn't fare much better, with vacancy rates hitting their highest levels in a decade.

The previous vacancy high for strip malls was in 1991, a period often referred to as the commercial-real-estate depression, according to Reis economist Ryan Severino.

"Our outlook for retail properties as a whole is bleak," Severino said in a press release. "Until we see stabilization and recovery take root in both consumer spending and business spending and employment, we do not foresee a recovery in the retail sector until late 2012 at the earliest."

Reis expects the vacancy rate to continue to rise, with rents falling through next year.

The asking rent at U.S. strip malls fell 0.5% in the fourth quarter from the third, to \$19.12 per square foot. Asking rent was down 2.05% from the fourth quarter of 2008.

Asking rent at regional and super-regional malls fell 0.4% to \$39.03 per square foot in the fourth quarter, the fourth quarterly drop in a row. Asking rents were down 3.6% from the fourth quarter of 2008 -- the biggest annual loss in 10 years of research on that sector, Reis said.

Effective rent, which is what tenants actually pay landlords, fell 0.8% to \$16.75 per square foot, Reis said, erasing the past four years' worth of gains.

"It is daunting to observe this acceleration in decline in what has traditionally been regarded as a stable property type," Severino said.

The vacancy rate at large regional malls rose to 8.8% from 8.6% in the third quarter. Asking rent fell 0.4% to \$39.03 per square foot, the lowest since the second quarter of 2006.

Many experts believe commercial real estate will be the next bubble to burst.

"Losses from commercial real estate will be quite high by historic standards," Eugene Ludwig, chairman of Promontory Financial Group, a Washington-based consulting firm to financial institutions, told Bloomberg News. He is a former comptroller of the currency.

The default rate on commercial mortgages held by U.S. banks in the first three quarters of 2009 has been the highest since 1993, according to property research firm Real Estate Econometrics, Bloomberg reported.

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