The Outlook for Stores and Shopping Centers

Retail Construction Gets Back on Track

By Ralph Gentile

- *Contract awards for stores and shopping centers fell 12% in 1996 to a total of 231 million square feet (msf). Despite the continued growth of regional malls and other large shopping centers, activity weakened with the ease in economic activity.*

- *In 1997, store construction will see renewed growth as the economy strengthens and consumer confidence rebounds. Despite the fact that the market is "over-stored", retail construction activity will continue to grow through one more year until the economy slows activity. Look for a slowing retail construction market as the economy falls into a mild recession beginning in 1999.*

Contracting for stores and shopping centers slipped 12% during 1996 to 231 msf. The decline came despite the continued construction of many regional malls and other large shopping centers. For example, the fourth quarter witnessed the start of the McArthur Center Shopping Mall (one msf) in Norfolk, the Denver Pavilions Shopping Mall (741,000 sf), and the Market Square North Center (778,000 sf) in Washington, D.C.

In fact, activity for large retail buildings dipped only a bit during the year. The main weakness was for stores and shopping centers between 100,000 square feet (sf) and 250,000 sf, where starts fell 25% during the year. This size class includes the typical Wal-Mart, Wal-Mart Supercenter, and K-Mart, as well as many free-standing department stores.

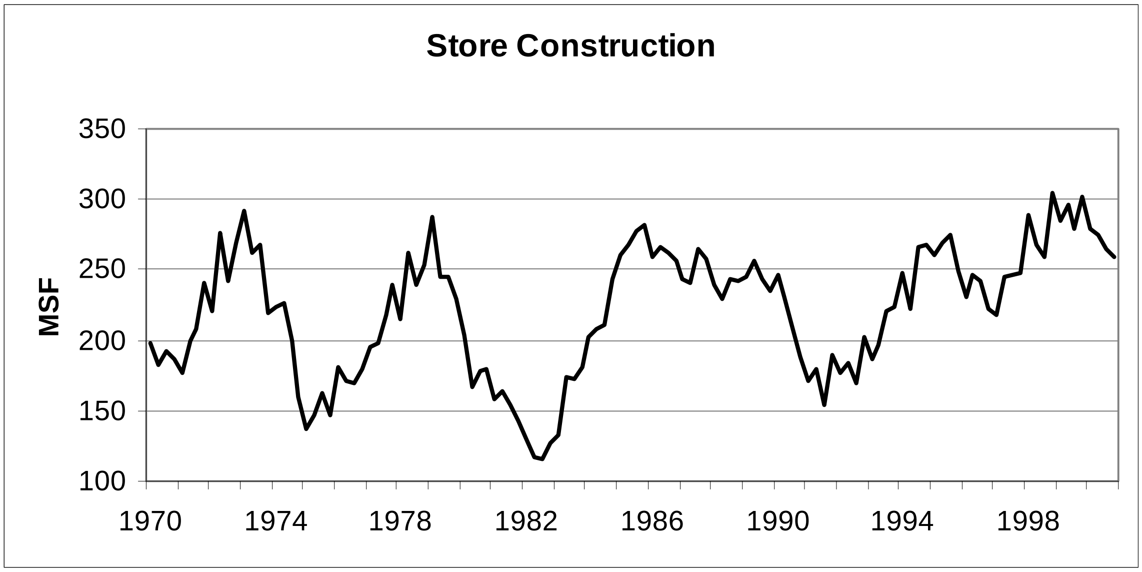
The meaning of the dip in construction activity for small shopping centers and large free-standing stores is equivocal. The decline could indicate a slowing in the expansion of the discount chains after years very rapid growth. The half life of a retail format is no more than a decade and the cutting edge of retail development appears to have passed to middle size centers with entertainment complexes. The difficulty with this speculation is that the large retailers are reporting excellent results for 1996. Even K-Mart, which has posted large losses in some years, is reporting strong revenue and profit growth. Specialty retailers are now consolidating.

Are We "Over-stored"?

It is also tempting to view the 1996 decline in contracting as the delayed

Stores and Shopping Centers & Their Drivers

	1996	1997	1998	1999	2000	2001
Store Construction (Msf)	**xxx.x**	**xxx.x**	**Xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**
Housing Starts (000 Units)	1,xxx	1,xxx	1,xxx	1,xxx	1,xxx	1,xxx
Retail Sales (Bil $)	1,xxx	2,xxx	2,xxx	2,xxx	2,xxx	2,xxx
Real Disp Income (Bil 92$)	5,xxx	5,xxx	5,xxx	5,xxx	5,xxx	5,xxx



reaction to the excess of retail space. There is strong evidence that the United States is "over-stored", leading many real estate investors to shy away from the asset class. Data from the International Council of Shopping Centers indicate that sales per square foot are declining at regional malls. The difficulty is that many centers are doing quite well. The surplus of space appears to be accentuating the differences between winners and losers, rather than discouraging all new construction.

The most measured interpretation of the 1996 results, however, is that the long run problems of the U.S. consumer are finally dampening store and shopping construction. The debt burden of the average American household has stabilized at high levels in recent quarters. The consequences of debt are most visible during an economic recession, but there are some visible effects even during good time. Personal bankruptcies have jumped in the past year and credit card issuers, facing rising delinquencies, have reportedly begun to raise lending standards.

Disposable Income to See Gains

In the immediate future, the firm U.S. economy and rising wage rates will support gains in disposable income, stimulating consumer spending and fueling final demand. The overall effect is that store and shopping center contracting is expected to rise an estimated 1% in 1997 to reach 233 msf. It is during the subsequent period that the long run problems begin to play a role. The trend growth in consumer spending will almost certainly slow as both of these factors gain influence.

Beginning in 1998, the cyclical behavior of the U.S. economy will play the dominant role. As economic growth slows in 1998 and stalls during 1999, contract awards for store and shopping center construction will fall. Construction will dip 3% in 1998, 9% in 1999, and 5% in 2000. This trough in contracting activity will almost match the low in the previous cycle. In the final year of the forecast, the stores and shopping center category will again improve, rising 8% to finish the interval at 210 msf.

Total U.S. Retail Sales
In Millions of Dollars

	YTD 1996	YTD 1995	Total Change	Percent Change
RETAIL SALES, TOTAL	**x,xxx,727**	**x,xxx,540**	**Xxx,187**	**x.6**
DURABLE GOODS, TOTAL	**x,xxx,013**	**Xxx,282**	**Xx,731**	**x.0**
Building Materials Group Stores	xxx,190	xxx,813	Xx,377	x.4
Automotive Dealers	xxx,178	xxx,545	Xx,633	x.3
Furniture Group Stores	Xxx,604	Xxx,546	X,058	x.6
Hhld Appliance, Electronics Stores	Xx,247	Xx,020	X,227	x.9
Sporting Gds Stores and Bicycle Shops	Xx,304	Xx,851	453	x.5
Book Stores	Xx,680	Xx,392	288	x.8
Jewelry Stores	Xx,443	Xx,246	X,197	x.4
NONDURABLE GOODS, TOTAL	**x,xxx,714**	**x,xxx,258**	**Xx,456**	**x.6**
General Merchandise Group Stores	Xxx,850	Xxx,858	Xx,992	x.6
Food Group Stores	Xxx,637	Xxx,161	Xx,476	x.8
Gasoline Service Stations	Xxx,495	Xxx,950	Xx,545	x.5
Apparel and Accessory Stores	Xxx,485	X7,915	X,570	x.7
Shoe Stores	Xx,277	Xx,191	Xx6	x.5
Eating and Drinking Places	Xxx,563	Xxx,707	Xx,856	x.2
Drug and Proprietary Stores	Xx,265	Xx,543	X,722	Xx.2
Liquor Stores	Xx,682	Xx,928	X,754	x.8
Nonstore Retailers	Xx,855	Xx,657	X,198	x.3
Total Mail Order	Xx,879	Xx,508	X,371	x.6
Fuel Dealers	Xx,068	Xx,911	X,157	x.0
GAF, Total	Xxx,185	Xxx,331	Xx,854	x.5
Miscellaneous Shopping Goods Stores	xx,246	xx,012	X,234	x.5

Source: Monthly Retail Surveys Branch, U.S. Census Bureau

The Outlook for Stores and Shopping Centers

Recent Starts

Value Mil$	Area 000 sf	Title/Address	Description
124	1,320	International Plaza 1234 East North Tampa, FL	Started: Jan. 1996 Owner:
120	1,500	Willow Bend Mall Southeast Tollway Dallas, TX	Started: Mar. 1996 Owner:
104	1,320	International Plaza 1234 East North Tampa, FL	Started: Jan. 1996 Owner:
100	1,500	Willow Bend Mall Southeast Tollway Dallas, TX	Started: Feb. 1996 Owner:
88	1,320	International Plaza 1234 East North Tampa, FL	Started: Jan. 1996 Owner:

Nearing Start

Value Mil$	Area 000 sf	Title/Address	Description
120	1,500	Willow Bend Mall Southeast Tollway Dallas, TX	Expected: Nov. 1996 Owner:
104	1,420	International Plaza 1234 East North Tampa, FL	Expected: Jan. 1997 Owner:
98	1,300	Willow Bend Mall Southeast Tollway Dallas, TX	Expected: Nov. 1996 Owner:
84	1,020	International Plaza 1234 East North Tampa, FL	Expected: Jan. 1997 Owner:

Stores and Shopping Centers

Millions of Square Feet

	HISTORY					FORECAST				
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
UNITED STATES	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
NORTHEAST	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
New England	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
Middle Atlantic	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
NORTH CENTRAL	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
East North Central	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
West North Central	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
SOUTH	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
South Atlantic	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
East South Central	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
West South Central	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
WEST	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
Pacific Northwest	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
Pacific Southwest	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***

	HISTORY					FORECAST				
	98:4	**99:1**	**99:2**	**99:3**	**99:4**	**00:1**	**00:2**	**00:3**	**00:4**	**01:1**
UNITED STATES	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x
NORTHEAST	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x
NORTH CENTRAL	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x
SOUTH	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x
WEST	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x

Stores and Shopping Centers

Billions of Dollars

	HISTORY					FORECAST				
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
UNITED STATES	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**	**xxx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
NORTHEAST	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
New England	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
Middle Atlantic	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
NORTH CENTRAL	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
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East North Central	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
% Chg	***+2***	***+3***	***+4***	***+5***	***+6***	***+7***	***+8***	***+9***	***+10***	***+11***
West North Central	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
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SOUTH	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
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South Atlantic	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
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East South Central	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
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WEST	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
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Pacific Northwest	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**	**xx.x**
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	HISTORY					FORECAST				
	98:4	99:1	99:2	99:3	99:4	00:1	00:2	00:3	00:4	01:1
UNITED STATES	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x
NORTHEAST	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x
NORTH CENTRAL	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x
SOUTH	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x	xxx.x
WEST	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x