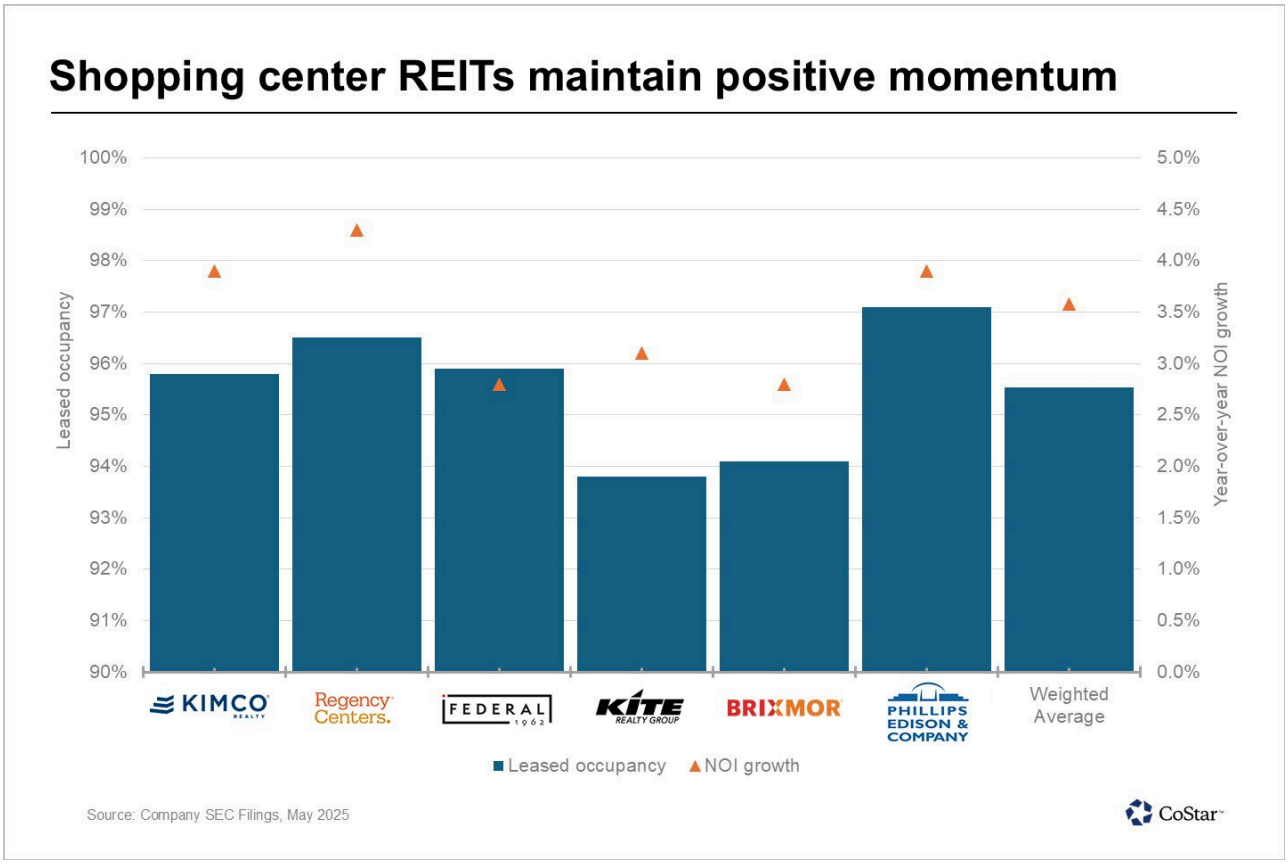
COSTAR INSIGHT

Shopping center REITs extend steady performance into 2025

Resilient occupancy and strong leasing momentum in 'open-air' centers underscore landlords' strong position



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Shopping center-focused real estate investment trusts shook off elevated store closings and shifting consumer behavior to deliver another positive performance in the first quarter.

Open-air shopping centers have been relative outperformers in the retail sector, and their strong performance has extended into 2025. Each of the six largest shopping center REITs, Kimco Realty, Regency Centers, Federal Realty, Kite Realty, Brixmor and Phillips Edison, reported steady occupancy, increased net operating income, strong leasing spreads and significant progress in backfilling space from recent store closures.

These six companies have a market capitalization of over $53 billion and own 309 million square feet of retail space across nearly 2,000 shopping centers. Across the board, leased occupancy remained high, with the group reporting a weighted average leased occupancy rate of 95.4% as of the end of the first quarter, up slightly from last quarter. Numerous REITs reported record leased occupancy rates, while Phillips Edison led the group with a leased occupancy rate of 97%, underscoring the resilience of its grocery-anchored portfolio.

Leasing spreads, the difference between the rental rate paid under the prior lease and the new one, were particularly strong as landlords retain pricing power for quality available space. Kimco and Brixmor reported same-store new leasing spreads of over 40%, highlighting how much more tenants are willing to pay for the right space.

Higher new lease rates and contractual rent bumps combined to drive the retail REITs' profitability higher during the quarter. The group's weighted average net operating income growth clocked in at 3.7%, aligning with recent levels. Regency Centers led the group with the highest net operating income growth during the quarter at 4.3%, while each REIT reported year-over-year same-store growth of at least 2.8%. The six REITs also benefited from various redevelopment and leasing initiatives, helping to offset rising build-out and debt-service expenses.

A key first-quarter theme was the proactive approach to re-leasing and backfilling space vacated by bankrupt tenants. Kite Realty explicitly acknowledged the impact of recent bankruptcies by some of its anchor tenants, which reduced its leased rate by 140 basis points. However, Kite also highlighted $27.5 million in net operating income related to signed leases for store space that has not opened yet, indicating that its retail backfilling efforts are going strong.

Kimco, the world's largest open-air shopping center owner, had 88 spaces to backfill due to bankruptcies by Party City, Big Lots and Joann. Of these spaces, 49 have already been assigned or released, while it has letters of intent out for an additional 28 of the spaces, leaving just 12 remaining. Per Kimco management, the remaining spaces have received significant interest and are expected to be backfilled quickly at positive spreads.

Looking ahead, retail REITs appear well-positioned to navigate a complex macroeconomic environment. While tariffs, interest rates, and consumer spending trends remain key variables, the sector's first-quarter performance underscores the still strong position of owners of open-air retail space.

While bankruptcies and store closings have increased substantially from the lows of 2021 and 2022, America's aging retail stock and the dearth of options for quality retail space in good locations have kept the ball firmly in the landlord's court.