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Editorial Commentary

Over the past 10 years, the Journal of Shopping Center Research (JSCR) has served as an outlet for a variety of research into the retail sector, with an emphasis on implications for the real estate market. The JSCR has been the primary tool for disseminating research funded and/or supported by the International Council of Shopping Centers Educational Foundation (ICSCEF), as well as "Best Retail Paper Award" articles nominated by two leading academic associations: the American Real Estate Society (ARES), and the American Collegiate Retailing Association (ACRA). While continuing these two efforts to stimulate and promulgate cutting-edge research, the JSCR is being repositioned to enhance its role as a conduit between the professional and academic communities. In 2006, the JSCR will include a new section that will feature unsolicited and unfunded research. The articles published in this section will go through a blind, peer review process, mirroring the process applied by top academic journals.

There are several objectives behind our expansion in the mission of the JSCR. First, over the past decade, through our RFP process, we have achieved our goal of supporting solid academic research into key retail real estate issues. The publication of this research in the JSCR has allowed the dissemination of that research, increasing the impact that is has had on the profession. To support the RFP and publication efforts, we have made a significant investment in publication processes, academic outreach, staffing and infrastructure. By creating a new outlet for unsolicited research, we believe we can leverage this foundation and stimulate additional high quality research that does not depend on direct funding. Second, we believe we can increase the benefits for authors by creating an academically credible outlet for retail research that receives recognition in the promotion and tenure process. This elevation in status should also help draw more attention to retail issues by leading academicians, increasing both the quantity and quality of retail-related research. Third, by creating a focused outlet for research into key issues faced by the retail real estate sector, we believe we can help foster "streams of research" that contribute to the advancement of thought. Finally, by stimulating additional research and debates, we believe we can serve as a conduit to help close the gap between the professional and academic communities. This will lead to more relevant, applied research that addresses emerging issues and industry trends that can help both industry professionals and academicians.

The details of the repositioning of the JSCR will be presented in the Fall 2005 issue, along with a call for manuscripts. In general, the JSCR will publish papers that address the ICSCEF's major research categories (demand, supply, and investment performance), as well as special topics that address industry trends and emerging issues. As we go to press with this issue, we are formulating our advisory board of leading academics and professionals with an interest in the retail sector who help guide our efforts for expanding the JSCR. We are also recruiting members to our editorial board to ensure that we have the right combination of industry and technical expertise to adequately review submissions. Our editorial board will help ensure we *address such issues as research design, data sourcing and/or collection, analytical techniques, and industry implications. Finally, we are developing the editorial policies and procedures we will apply to our enhanced publication. During this transitional year, the JSCR will continue to publish articles that originate from ICSCEF funded research and satisfy our editorial review standards.*

The current issue includes four articles that were funded in 2005, as well as the "Best Paper" on a retail topic awarded at the 2004 ARES Annual Conference. These papers benefited from the input of industry mentors who helped the researchers refine their research to add more relevance to real world decision-making, and in several cases, helped identify the types of data and data sources that could be used to explore the underlying questions.

In addition to the five articles presented in this volume, we have introduced a new section, "Executive Research Briefings." In this section, we have prepared a summary of each of the papers. The objective of these summaries is to help make the research more accessible to readers, especially industry professionals who may want may want to familiarize themselves with the overall research questions, methods, and results before delving headlong into the in-depth articles. Readers should note that the summaries are the editor's comments and do not reflect those of the authors or the ICSCEF. Similarly, the articles reflect the authors' positions and not those of the editor or ICSCEF. The first two articles explore "demand-side" elements of our research priorities, the third article explores the "supply" category, the fourth article addresses both the "supply" and "investment" categories, and the final article falls into the "investment" category.

In the first article, "Consumer Preferences for Retail Formats," Carpenter and Moore explore the connections between major demographic trends and the retail market, focusing on the implications for retail formats. In particular, the authors analyze differences in preferred shopping center formats by four cohort groups: Seniors, Baby Boomers, Gen X'ers, and Gen Y'ers. The objective of the paper is to suggest how owners and managers should consider these cohort groups when developing and implementing retail real estate strategies.

In the second article, entitled "Teens and Shopping Mall Preferences," Wilhelm and Mottner take an in-depth look at the "teen" demographic, exploring their preferences for the "ideal" shopping center. This article also assesses some of the attribute trade-offs that teens are willing to make when choosing a mall, and by extension, what shopping center managers can do to target this important and expanding segment of consumers.

The third article, entitled "Mixed-Use Development," by Kim, Fairhurst and Atkins, shifts gears by looking at a topic that is receiving significant attention in the industry. The authors review the evolution of mixed-use development, and use case studies to explore the "critical success factors" that differentiate successful mixed-

use developments that contain a retail component. The research looks at the question from three key perspectives: the tenants in mixed-use projects, the property managers who run mixed-use projects, and the consumers who patronize mixed-use projects. In addition to exploring the perceptions of these three somewhat distinct groups, the authors also apply a SWOT analysis, looking at "Strengths, Weaknesses, Opportunities, and Threats" to mixed-use developments.

The fourth article, "Disaggregating Neighborhood and Community Center Property Types," was selected as the "Best Retail Paper" by ARES at its 2004 Annual Conference. In this supply-side analysis, Hardin and Carr report on their fundamental assessment of the hierarchical nature of shopping center formats. That is, they explore differences between neighborhood and community centers to determine if they can be approached as complementary or should be treated as strictly competitive alternatives. The analysis focuses on comparing and contrasting the levels of rent and the drivers of rent for community and neighborhood centers. In general, the authors find a number of interesting results that have implications for investors and managers.

In the final article, "Investor Perception of Retail Property Risk," Anderson and Springer use retail REIT investments to explore whether different retail strategies result in different risk profiles by using the volatility of daily stock prices as a proxy for perceived risk. The authors isolate REITs into a number of discrete categories relative to retail investments, focusing on such issues as retail concentration, property type diversification, size, and portfolio composition. The research provides some interesting results that suggest how financial analysis can be used to help link capital markets to real estate fundamentals.

We invite you to review the following Executive Research Briefings or plunge right into the articles of interest. In our next issue, we will include a 10-year retrospective of previously published research to help you review the evolution of research published in the JSCR. In addition, abstracts and full text copies of all articles are available for free download at our website: http://www.reuw.washington.edu/JSCR We welcome your questions, your feedback, and your suggestions.

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Consumer Preferences for Retail Formats: Implications for Tenant Mix Strategies

In "Consumer Preferences for Retail Formats," Carpenter and Moore explore the connection between cohort groups and preferences for shopping center tenants. The authors begin with a review of some of the major demographic shifts that have all but redefined the notion of the "typical family." These changes range from the growth in single-person households to the changing composition of families in terms of children, including increases in those with no children, as well as households with "boomerang kids," who move back home. They recognize that the increase in diversity embedded in these changes has profound implications for retailers who are constantly struggling with how to respond to demographic forces. While they recognize that retailers have been fairly successful in responding to shifting demographics and consumer demand, they also argue that successful retailers must focus on greater market segmentation. Of particular interest is the impact of membership in cohort groups (e.g., Seniors, Baby Boomers, Gen X'ers, and Gen Y'ers) on choice of shopping format.

The authors begin with a fairly extensive literature review on cohorts, although they preface their article with an observation that few studies have tried to link cohort groups to actual shopping center format choice. To place the discussion in context, the article reviews some of the seminal literature behind cohort theory, including some of the underlying factors that create commonalities among cohort groups. They review each of the four cohort groups, highlighting some of the key attributes and behaviors they have in common.

The authors then turn their attention to linking these groups with retail and shopping center preferences. They focus their research on tenant format preferences among the cohort groups using four key product categories: apparel, consumer electronics, CD's/DVD's/Books, and groceries. Their research design drew a random sample from a national population of U.S. consumers, stratified to ensure representation in each of the four cohort groups. The telephone survey included questions regarding two types of shopping format preferences: 1) retail formats (e.g. Bricks & Mortar, E-retailers, and Bricks & Clicks), and 2) types of stores preferred in shopping centers.

The data are presented using a combination of descriptive and inferential statistics beginning with a demographic profile, highlighting some of the similarities and differences among the cohort groups. Based on this foundation, they turn their attention to the four product categories, exploring differences among the cohort groups. The results provide some empirical support for the importance of considering cohort groups in making tenant mix decisions. For example, in the apparel category they report significant differences among the cohorts with respect to department store preferences. The results across other types of merchants are intuitively consistent, with

Boomers preferring catalogs over Gen X'ers, and Gen Y'ers preferring specialty stores and off-price merchants.

Differences in store preferences for the consumer electronics category are also reported, while results for the CD/DVD/Book category were unclear. With respect to food categories, the authors report several key differences among cohorts in several regards. In general, Gen Y'ers preferences for supercenters are stronger than they are for Seniors and Boomers. On the other hand, Gen Y'ers have a weaker preferences for warehouse clubs relative to that of Boomers. In terms of stores they would like to see in their ideal shopping center, a number of notable differences are reported among the cohort groups. Interestingly, Seniors are the only category ranking upscale department stores among their favorite choices, and Gen Y'ers are distinctive because they tended to ignore restaurants and family department stores. On the other hand, Gen Y'ers did rank category killers and entertainment/hobby stores in their top five store preferences.

In general, the results of the study are consistent with expectations and provide some insights into some of the generational factors that retailers and shopping center owners should consider in making tenant decisions. However, the authors note that due to the aggregate level of the cohort analysis, the results should be recognized as more of a framework or context within which more defined segmentation and product positioning strategies should be placed. Similarly, they point out that future research should investigate the longitudinal implications of cohorts as they age and pass from one generational setting to the next.

Teens and Shopping Mall Preferences

The paper, "Teens and Shopping Mall Preferences," by Wilhelm and Mottner, investigates the shopping mall preferences of the 12-17 year old market segment. The objective of the research is to explore three fundamental questions. First, what are the key attributes of shopping centers that teens look for when choosing a mall? Second, how do teens envision the "ideal" mall? Third, what trade-offs do teens make among mall attributes and attribute levels?

The paper begins with a discussion of the importance of the teen segment to the mall industry. The authors argue that an understanding of teen shopping preferences can help in several regards. For example, shopping center managers desiring to attract teens can use the knowledge to become more customer-centric. This will enable them to make decisions regarding mall formats, concepts, and tenant mixes that can help attract and enhance the teen customer shopping experiences. In addition, since teens help set some trends, an understanding of the teen segment can help managers attract other market segments that have complementary needs. Finally, by understanding how teen preferences and behaviors differ from other potential target market segments, managers can make trade-off decisions that strike an appropriate balance, and avoid compromising their general appeal by over-emphasizing a particular segment.

The preliminary discussion includes a fairly extensive literature search regarding teen shopping and enclosed malls. This background research is used to identify the major attribute groupings that are likely to affect teen shopping preferences. One of the concepts emanating from this secondary research is the notion of the "experience economy," which refers to various participatory elements of shopping formats that might attract teens and other segments. Examples of such activities range from passive forms of entertainment to more active entertainment where customers are physically engaged in the experience.

One of the unique elements of the research design involves the use of forced decisions among various shopping center attributes and tenant mixes. The authors argue that the "trade-offs" involved in such decisions are more realistic in terms of actual shopping trips, and provides more insights than most research that relies on ratings of attribute importance or desirability. In particular, they contend such research results in biased and thus misleading data, with respondents tending to want more of all attributes, especially if they are a "free good." In developing their questionnaire, the authors used focus groups to refine the potential list of attributes, as well as to identify other attributes that should be measured. The results were incorporated in a pre-test web survey to ensure the full dimensionality of the attributes was explored in the actual study. The experimental design included 10 different pairs of product concepts/choice tasks so that the respondents would be forced to make side-by-side comparisons. The data were collected through a national sample of teens using a web-based survey. In addition to age factors, the potential list of respondents was filtered to include only those teens who lived within an hour of a mall. The responses were analyzed using "conjoint analysis," a multivariate statistical technique.

The authors report that each of the attributes of interest had a statistically significant impact on mall choice, with "friendliness" and "coolness" being the key attributes. The results also suggest that "diversity of stores" is important to teens. The number of different passive entertainment options is also important, attesting to the appeal of shopping "experiences" to teens. On the other hand, when aggregating all the responses together, the nature of entertainment options varies, with the "active entertainment" option less important overall and educational experiences and cultural events having the least appeal. As might be expected, there are gender differences with boys seeking more active entertainment, while girls are more interested in "friendliness" and "coolness." With respect to attribute levels, teens indicate that "more is better." In terms of the traditional vs. "experiential" mall, respondents come in overwhelmingly on the side of experiential malls. In making a trade-off between two hypothetical malls, one cool and a good place to hang out, and one with lots of experiences, the genders are mixed, with girls favoring the former and boys the latter.

This paper has a number of implications for shopping center owners regarding teen shoppers and reaffirms the importance of market segmentation. The authors argue that teens, like other shoppers, make a number of trade-off decisions when selecting malls for shopping and hanging out. With respect to teens, the notion of "cool" emerges as the main driver. Since the definition of what is "cool" can change rather quickly, managers will have to struggle with ways to ensure shopping centers remain competitive, adjusting the perception and relative appeal of their properties to respond to the changing views of the targeted user groups. At the same time, consideration must be given to the interaction among market segments to ensure that an appropriate balance is struck to maximize appeal across diverse, and potentially incompatible, customer groups. Finally, the paper raises a number of questions on mall imaging or branding, including how an owner/manager can find and maintain the appropriate blend without confusing the market or alienating core consumer groups. Of particular interest to the industry is the authors' suggestion that malls may be in a unique position vis-à-vis other shopping center formats to provide meaningful experienced-based environments, given their inherent scale and diversity.

Mixed-Use Development: Creating a Model of Key Success Factors

In "Mixed-Use Development," Kim, Jolly, Fairhurst, and Atkins take on an important retail format that is gaining momentum in the current real estate environment. The authors begin with an overview of some of the driving forces behind the emergence of mixed-use projects. They present a fairly extensive review of the literature surrounding modern mixed-use development, noting its popularity in the post-WWII era when downtowns were the dominant choice for retailers. From their perspective, mixed-use development is one of the key trends of the 2000s, and part of the natural evolutionary cycle of shopping centers that is leaving some malls behind. Indeed, the authors suggest that despite their efforts to add "entertainment and ambience," many regional malls have fallen into the trap of becoming look-alike centers with little meaningful product differentiation. While some mall owners will no doubt disagree with this statement, most will agree that all shopping center formats must respond to changes in demand and new forms of competition (e.g., outlet centers, power centers, and cyber malls).

In exploring some of the underlying factors behind the rising interest in mixed-use, the authors recognize one of the drivers is the "New Urbanism" movement, with its calls for increased densities, walkable developments, and combined live-work environments. They also suggest that a number of demographic and socio-economic trends are helping stimulate more demand for mixed-use development. Within the broad class of mixed-use, the authors identify five major categories or subclasses: vertical, central city, town center, historic adaptive re-use, corridor high-density in commercial nodes, and neighborhood. They also establish some criteria that can be used to designate mixed-use development, such as three or more significant uses, physical and functional integration, and development under some coherent plan.

Given the diversity of mixed-use development, the authors note that identification of critical success factors is a challenge, especially in light of the recent wave of growth of such projects. They conclude that case studies are the best way to isolate some of the key factors. The selection of cases involved a multi-stage process. In the first stage, cities with high population growth rates and experience with mixed-use developments were identified. From this base, 13 geographically dispersed sites were selected representing each of the five types of mixed-use categories. Primary research was used to collect data from three groups: retailers, property managers, and consumers. To increase response rates and increase the reliability of the responses, a variety of incentives and data collection techniques were applied.

The paper explores a number of issues related to mixed-used development, as seen from three distinct groups: the retail tenants in mixed-use properties, the property managers of mixed-use properties, and the customers shopping in mixed-used properties. This discussion explores a number of key issues, ranging from the nature of tenants that should be included in mixed-use projects, to the attributes of mixed-use projects that help attract customers. They also explore some of the product attributes offered by mixed-use projects, including convenience, product choice, and customer service. Finally, the authors report on the results of "SWOT" analysis, exploring strengths, weaknesses, and opportunities that are attendant with mixed-use projects. After summarizing each of the group's responses, the authors compare and contrast the responses among the three target groups. In general, they are in sync, despite the fact that consumers in mixed-use projects reflect a fairly diverse mix.

The findings suggest that convenience is a major factor behind shopping decisions. Customers also tend to be loyal, with the vast majority indicating they are repeat customers. Consistent with other research, the uniqueness or ambiance of the center is a major draw, while prices are not as important. On the other hand, product quality, selection, choice, and presentation are very important elements of store selection, echoing consumer preferences for most retail formats. Reflecting in part the neighborhood nature of some mixed-use developments, customer service, friendly/knowledgeable salespeople, and return policies are all very important. Indeed, these service-related items may explain the somewhat lower importance attached to competitive prices among customers.

One area of disagreement among the respondents surrounded the issue of parking, which retailers and consumers hold in higher stead than do managers. Thus, given the importance of convenience to customers, getting the amount of parking right will continue to be one of the more challenging elements of mixed-use, especially as such projects spill over from pedestrian-oriented, high-density, urban neighborhood settings into more traditional suburban and small town settings. On a similar note, retailers and property managers believe weather is more of a factor than shoppers do, who do not acknowledge that it influences where they shop. Finally, one of the key surprises to the authors is the apparent lack of concern surrounding potential noise problems. However, they note these results might be spurious, stemming from the use of case studies rather than more quantitative research that can be extended to a broader segment of the mixed-use development and more diverse market settings. To address such issues, the authors present a "holistic" model for mixed-use developments, emanating from the three groups explored in this study. The key attributes in this model are clustered into four dimensions: balance and mix of uses, public spaces, convenience (e.g., location and parking), and target consumers.

Disaggregating Neighborhood and Community Center Property Types

In "Disaggregating Neighborhood and Community Center Property Types," Hardin and Carr report on their fundamental research into the hierarchical nature of the retail sector. That is, they explore whether different center formats are meaningfully different, using neighborhood and community centers that have some apparent overlaps in terms of product stratification as the test case. To ensure that the results are "meaningful," rental levels are used as the dependent variable, serving as a proxy for differences. To the extent that the types of centers are indeed different, managers and investors can approach them as complementary, rather than strictly competitive retail alternatives. The empirical analysis focuses on two key rent-related measures. First, do the typical levels of rents (i.e., minimum, averages, and maximums) differ between the two types of centers? Second, are there differences in the drivers of rents (i.e., attributes and intensity) for the two types of centers?

The paper begins with a literature review, identifying some of the factors that influence non-mall rents, including agglomeration effects, logistics, trade area profiles, and shopping center layout and design. The paper also discusses Huff's class gravity model, and suggests a number of extensions that make the model more useful for exploring the hierarchical nature of the market. These extensions include an understanding of the importance of consumer perceptions of alternative shopping centers, as well as an appreciation for the underlying motivations that trigger shopping trips and the multipurpose nature of many consumer trips. Based on this insight, the authors discuss a rental adjustment model, which links center patronage to non-anchor retail rents. The model incorporates variables covering several key dimensions: center-specific data, demand data, and competitive market data. In addition to these two retail classes, the research decomposes the market into sub-markets to help further explain rental differences.

The empirical testing of the model is based on primary research, which supplements third-party data for shopping centers in Atlanta, Georgia. The data set includes 370 neighborhood and community centers that were open in 1999. Prior to testing their models, the authors present summary statistics for the "average" community and neighborhood centers in the data set. They also present a number of profiles that help explain how each of the two types of centers are positioned in the market and descriptive data regarding their effective age and design attributes.

The paper presents the results of a number of regression models that are used to provide insights into the commonalities and differences among the drivers of rent for each of the types of centers. The results are interesting and they reveal that community and neighborhood centers have some common drivers of rent (e.g., size, accommodation of multipurpose shopping, trade area purchasing power, and image), as well as some dissimilar drivers. The authors decompose the analysis further by exploring different settings and trade areas, in an attempt to seek additional insight into how the market reacts to the different shopping center format and competitive settings.

In general, the research presents a confirmation that the retail market is hierarchical as hypothesized. Several findings support this conclusion. First, some of the variables that affect rent for the two center types differ both in terms of significance and intensity of impact. For example, within the neighborhood sector, image variables (e.g., design, accessibility, age, and renovation status) have a greater impact on minimum neighborhood rents than on maximums. When compared to community centers, image variables have a similar impact on minimum rents as they do for neighborhood centers, but are different for maximum rents.

Given the results on rental differences, the authors explore some of the underlying factors that might explain the observations. These are based on a combination of empirical analysis, experience, and intuition. For example, they find that neighborhood centers are more sensitive to vacancy rates (which is intuitive since they tend to be smaller), as well as to purchasing power in the immediate trade area. Another explanation is that neighborhood centers are more dependent on their primary trade areas, while community centers draw customers from a wider area. One of the counter-intuitive findings of the research is that neighborhood center rents are not adversely affected by a higher presence of low-income households in the immediate area. On the other hand, community centers located in market settings with a higher concentration of low-income households are more likely to have rental ceilings that constrain maximum rents. The authors offer two explanations for this finding. First, they conclude that neighborhood centers in the sample have been effective at micro-marketing, and are able to attract a loyal following of local customers, capturing a greater market share of their purchasing power by catering to demographics and consumer preferences. Second, with respect to community centers, they suggest that potential customers have more choices and are less likely to frequent properties located in what they consider to be marginal or lower-income market settings.

To help link their work to the industry, the authors suggest the hierarchical nature of the market has a number of implications for strategic approaches to retail markets. For example, when using traditional gravity models, the drawing power of a center is assumed to be in direct proportion to its size relative to the total market. In some cases, the authors argue this form of competition does not hold up, which is evident by the fact that rental levels in both neighborhood and community centers both seem to benefit from proximity to a regional mall. Similarly, higher rental levels suggest that neighborhood centers benefit from proximity to community centers while rental levels in community centers are not impacted as much by the presence of neighborhood centers. Finally, community center rents have systematically higher base rent levels than neighborhood centers, due in part to their drawing power. The authors conclude that the type of fundamental research they present can be useful to managers and investors. They also point out that it can provide some insights to developers, by helping identify some challenges that should be considered when redeveloping and expanding retail centers, especially those in lower-income markets.

Investor Perception of Retail Property Risk: Evidence from REIT Portfolios

Over the past decade, Real Estate Investment Trusts (REITs) have emerged as a significant component of the overall real estate market. In some cases, investors use REITs to complement their private holdings, while in other cases, they serve as the entire exposure of an investor to the real estate asset class. Regardless of the specific role that they play, REITs offer a number of choices in terms of property type and geographic focus. Thus, investors can assemble different holdings to achieve a certain level of diversification within their real estate portfolios, which can help to capture superior risk-adjusted returns above random investment. To exploit such opportunities, it is important that investors understand the risk/return profiles of the various property types and the role of portfolio management in managing portfolio-level risk. Given the dynamic nature of the retail sector, such analysis is particularly important since the industry is undergoing continuous change and evolution in response to changing demand and competitive balance. In “Investor Perception of Retail Property Risk: Evidence from REIT Portfolios,” Anderson and Springer try to shed some light on these issues, using REITs to explore investors’ perceptions of the risks associated with retail investments.

The article begins with a literature review, presenting contemporary thought in finance thought regarding how the market perceives and prices the risks attendant with real estate investment. The authors argue that REIT pricing offers insights into underlying market fundamentals, as investors take advantage of the ready availability of and accessibility of data on REITs. They also note that some REIT managers apply a number of strategies with respect to diversification, extending portfolio principles to help manage portfolio-level risks. However, they note that research into diversification benefits has yielded mixed results, especially with regard to specific property sectors. Despite this caveat, they argue the literature tends to support the notion that property type focus (e.g., retail, office, and apartment) is an attractive characteristic. They also recognize that in addition to focusing on property types, some REIT managers choose to focus on specific sub-property types (e.g., neighborhood centers, community centers, or regional mall). The underlying strategy of such managers is to use this narrow scope to exploit economies of scale, management efficiencies and negotiating power, and superior market knowledge to capture higher property level returns. These managers assume that these higher returns can offset the higher risk associated with less diversification among real estate sectors. The bottom line is that REITs make conscious decisions as to the optimal level of specialization or diversification that is appropriate to their needs, and that investors price those decisions by virtue of share prices.

The authors focus their attention on delving into the retail property type to discover if diversification benefits occur at a more stratified level. In particular, they explore whether there are benefits from concentrating on a particular type of retail (e.g. regional mall, community centers) or from being more vertically diversified within the sub-types. Before presenting their empirical results, they set the stage by discussing some of the anecdotal evidence regarding risk/return profiles within the retail sector, as well as some of the theoretical arguments that could explain returns under various retail mix strategies. They pay particular attention to the impact of life-cycle strategies, leasing and demographic trends on retail real estate investments.

The data for this study were drawn from the SNL REIT Datasource and the CRSP database. The data set extended from January 2000 through December 2003, and covered 77 REITs with retail property holdings. When approaching their empirical analysis, the authors posited that risk will be related to diversification and developed an index to establish the relative concentration (i.e., focus) on retail within the selected REITs. In addition, the authors analyzed geographic concentration, effective age, and relative portfolio size to compare various REIT holdings. Demographic data were also compiled, although it should be noted these data were at an aggregate level using NCREIF regions as the underlying geographic area. Given the diversity of REITs with retail holdings, the companies were divided into two categories; those that are primarily retail; and, those that have some retail holdings.

The results of the analysis provide some interesting insights into how the market perceives and prices retail property risk. In general, retail concentration within retail subtypes, retail focus relative to other property types, and portfolio size are reported as significant variables affecting risk. Based on their research, the authors argue that retail portfolio risk can be partially explained by retail focus, with portfolios with greater concentration within retail types having lower risk. On the other hand, they point out that geographic diversification adds to the overall portfolio level risk, although they recognize that reliance on the NCREIF regions may have confounded the results due to the aggregate nature of the analysis and a more precise specification could provide more accurate results. With respect to the percent retail variable, the analysis reinforces conclusions draw from the literature, with higher performance attributed in part to more of a focus on retail properties and ancillary benefits.

Regarding self-management, the positive results from the analysis are intuitively consistent with management theory and economies of scale. The authors point out that the lack of significant results for the age of property is somewhat surprising, although given limitations of their date, they conclude more research is warranted on this issue. Finally, they report that REITs that hold a higher concentration of net-leased properties have lower property-level risk, although this is likely to be at the expense of total returns due to limited upside potential. The authors conclude that the extension of such research can add insights into the underlying risks associated with various portfolio strategies as manifested in REIT share prices.

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Editor - Journal of Shopping Center Research

It should be noted that the “Executive Article Briefings” reflect the editor’s summaries of the individual articles and do not reflect the positions or conclusions of the authors, ICSC or the ICSC Educational Foundation. They are presented as a convenience to help readers understand the general scope of the various articles so they can focus their attention on articles exploring issues of particular interest to them. Readers are encouraged to read the detailed articles in their entirety to ensure they develop an understanding of the scope of analysis to help qualify the contributions offered by each of the respective authors.

We would like to take this opportunity to recognize the contributions of the 2005 research team at the Runstad Center for Real Estate Studies including Rebecca Griego, Andrew Bjorn, Aaron Keeler, Pearl Hei-Ching Leung, and Harold Pierce.

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