

# SHOPPING CENTER BUSINESS<sup>®</sup>

## Mall Encompassing

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Are there too many malls? The short answer is “yes,” but the better questions are *How did we get here?* and *Where are we going?*

There was a peak in the 1970s when consumers “called for,” and developers gladly delivered, many regional malls—we couldn’t build them fast enough. But as the Wal Marts, Kohl’s and Targets of the world emerged and flexed their muscles, a significant percentage of sales shifted to those power tenants; and over the last 10 years online retail has effectively found its place, nibbling away at the foundations of shopping center dominance. Finally, for those traditional malls that were already struggling, the economic challenges of the last few years were the knockout punch.

For commercial developers and mall owners and operators, it is tempting to view the current state of the marketplace as a recessionary aberration, but the reality is that the recent slowdown only sped up the Darwinian process that was already in the works.

Going forward, two things are going to happen: malls will continue to get better, and there will be fewer of them.

The big question, of course, is what will that process look like? How will malls continue to evolve, which ones will fail and which ones flourish, and what will the shopping center landscape of tomorrow look like?

### Less is More

Consolidation will be the most significant trend going forward. Multi-mall markets will see reductions and single-mall markets may see their malls replaced by smaller retail concepts or stand-alone stores. With approximately 300 million US residents and roughly 1,200 malls, the old formula of one mall for every 250,000 individuals does not work anymore. It is probably closer to one mall for 350,000 people and we will likely see that figure grow in the not too distant future to something closer to 500,000, or perhaps even higher, depending on the size of the regional market.



### Formula for Success

The successful malls of tomorrow will look a lot like the most successful malls of today. While department stores are not as agile as smaller tenants and have perhaps taken more of a direct recessionary hit, the silver lining has been a reaffirmation of their importance: adequate anchoring (anywhere from one to three department stores) and critical mass (with a minimum of 250,000 to 600,000 square feet of specialty retail) will continue to be necessary for sustained success. The retail component is going to continue to expand through the significant addition of leisure-time elements. Between 100,000 and 250,000 square feet of cinemas, restaurants, bars and clubs will become the rule rather than the exception; with leisure-time components often featured as an entertainment anchor.

### Inside Out

The utility and convenience of enclosed retail space will continue to be attractive, but the best malls will also feature well-designed, open-air/urban spaces. Becoming a true leisure-time destination is difficult unless you create a physical environment that reflects it; with all of the vitality, energized streetscapes, human scale design and memorable sense of place inspired by traditional urban design principles.

### Location

The “location, location, location” cliché will remain as true as ever, and malls positioned in a regional retail environment with abundant peripheral retail will have an advantage. Quality sites adjacent to complementary uses—such as a big box and power retail, restaurants and theaters that will help drive traffic and increase the regional profile—will continue to be at a premium.

### New Converts

With plenty of outdated or underperforming malls occupying quality locations, conversions will be a big development focus; significantly more so than new construction. Prime candidates for redevelopment include centers with good demographics and quality regional access, but with department store sales that are flat or diminishing, and in-line vacancies or a number of stores in need of updating or renewal. Many malls can be kept mostly open and operational throughout much of the conversion/renovation process, but owners should be prepared to secure a significant injection of capital as well as cooperation from the local municipality.

### Experience vs. Expedience

The ongoing retail divergence will continue to refine two distinct retail niches. There will be an increasingly stark contrast between those retail projects who see themselves primarily as places for the distribution of goods (Wal Mart, Target, Sams Club, Costco, etc.) and other retail projects articulated around experiential environments with a strong sense of place (the regional malls). The characteristics of the former will have more and more in common with distribution warehouses: accessible, parkable, safe and clean with cost-based rental structures. The latter will trade on visibility and place-making as the defining trait that adds value and drives traffic, with tenants who are willing to pay volume-based rents.

### Value Proposition

The regional retail environments of tomorrow are going to be very desirable magnets for mixed-use environments; residential, office and hospitality uses that can generate premium incomes. Communities have gotten better at recognizing and understanding the value of these projects, appreciating that the benefits go well beyond jobs created and taxes paid. These unique environments make neighborhoods and communities more desirable for residents and businesses alike. As a result, local leaders are getting more actively involved in the approval and planning process. Access to capital is already increasing as the economy turns the corner, and funding *will* be there for quality projects down the road; money is good at knowing what works.

### A Bright Future

The owners—and developers—who can “see” the future of retail and are willing to embrace it, rather than stick their heads in the sand, will play a leadership role in the future. They will help shape the next iteration of the American mall. They know how to, or are willing to make the investment to, convert malls. They speak the language of the department stores. They have access to the specialty tenants. They understand how to integrate leisure-time components. They understand importance and complexities of public financing, and they value a strong mix of uses. Development professionals who can apply those skills most efficiently and effectively are those who will survive and thrive in the competitive, dispirit retail landscape of today, and tomorrow. **SCB**

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