

Mixing Things Up

Savvy investors will seize the opportunity to convert failing retail centers into vibrant mixed-use projects.



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From rough headlines to even tougher bottom lines, the ongoing effects of the economic slowdown have continued to ripple across the retail and mixed-use development landscape. With consumer spending in a “wait and see” pattern and the percentage of U.S. GDP based on consumption likely to continue decreasing through 2009, the retail landscape will keep readjusting.

And this may not just be a short-term phenomenon. Many analysts believe that consumer spending may be inalterably changed. As a result, the short- and long-term consequences of this reset will have profound effects on everything from property management and financing to leasing and repositioning assets. But what do the events of the last 18 months say about the future of mixed-use development?

While some properties are taking hard or even fatal hits, city planners should be dancing in the streets. Why? Because the current crisis may present a rare opportunity for city planners to completely transform the urban fabric of their city or village. Indeed, the long-term outlook reveals an intriguing silver lining. Those lifestyle centers, hybrid centers and regional malls that do not have what it takes to survive these lean times will fail. These failures present chances to convert underperforming malls into extraordinary mixed-use projects that become vibrant community centers with reduced retail, fewer department store anchors, and larger residential, office, hospitality and entertainment components.

The first step in identifying opportunities is to take a closer look at the types of projects that are at greatest risk. In a recessionary cycle, the most vulnerable projects are ill-conceived centers with one or more fatal flaws. They may have been built in the wrong locations, have inadequate anchors, have failed to establish critical retail masses or contain tenant mixes that don't suit the existing consumer bases.

The second broad category of development that will struggle are the 100 to 150 regional malls that may not be inherently flawed but are simply suffering from weak sales, typically driven down by a lack of landlord investment to keep in-line tenants fresh and relevant, and by too much duplicative department store space splitting a shrinking economic pie.

Savvy developers will be able to identify these projects as ideal candidates for a mixed-use revival and reinvention. Mixed-use town centers with a much smaller retail footprint are likely to have a great deal of success. Some of these malls are in great locations, but are simply too large for the volumes they can generate.

While mixed-use redevelopment has its place, it is still important for developers to focus on the fundamentals. One common mistake is to assume that just because a project is mixed-use, that the basic rules of retail viability somehow no longer apply. Fundamentally, a mixed-use project can only happen at a location where retail alone would have made sense.

Another mistake is to get carried away with peripheral elements. If the retail component of a mixed-use project does not have the critical mass, even the best mixed-use project will be at risk. For a town center, generally at least one department anchor, between 200,000 square feet and 450,000 square feet of in-line retail and a strong 50,000-square-foot to 100,000-square-foot leisure-time component are required for success.

Just as the death of a large tree in the Amazon rain forest opens up a valuable patch of sunlight for fast-growing seedlings, the demise of some regional malls will continue to create gaps in the development canopy. The challenge is to demonstrate sufficient redevelopment savvy to take advantage of those opportunities and to create a new generation of mixed-use projects growing toward that patch of light.