

URBANLAND

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[Experts](#) from ULI's Commercial and Retail Development Councils discuss the future of shopping malls, changing consumer preferences, strategies for replacing vacant department store buildings, the challenges of adding nonretail uses to malls, competition from online retailers, and other trends.



How are shopping mall owners and developers addressing changing consumer preferences, especially those of millennials?

John Bucksbaum: Millennials enjoy retail and entertainment-related uses in close proximity to where they live. Health and wellness uses are also important. That can mean a grocery store with quality produce and health-oriented food, or restaurants geared more toward healthy living. Millennials expect to be able to shop moving seamlessly between bricks-and-mortar and e-commerce. Ultimately all shoppers will expect this. Millennials and members of every generation also want open space.

Joel Mayer: Everyone has been talking about millennials, but our industry sometimes overcorrects. We should pay attention to millennials, of course, but we should also pay attention to gen X and the baby boomers, too, because their taste profiles have changed as well. People are eating out much more. A study came out last year that showed that monthly grocery store sales are now lower than sales in restaurants. That's an amazing phenomenon. When we look at reshaping a shopping center, changing the mix of uses from 20 percent restaurants to 40 percent restaurants represents a huge shift.

David Birdsall: Authenticity is important to consumers these days, which means having more local retailers and emphasizing service retail tenants. Offering an authentic experience is a way to make your shopping center not necessarily internet-proof but at least internet resistant, or perhaps "internet complementary" is a better phrase. Owners of neighborhood retail centers are somewhat insulated from competition with online shopping sites because you can't get a haircut on the internet; you can't get Chinese takeout. The goal of these owners is to try to make their offerings relevant for the neighborhood. Owners of power centers are trying to make sure they have the best-in-class merchants, such as T.J. Maxx and Target and PetSmart—stores that have an online presence but that stand alone. For shopping malls and lifestyle centers, it's all about the quality of the experience they provide to customers.

David Todd: Everyone's trying to figure this out. It's helpful to focus a little less on certain things that have been important factors in the past, such as seeking out only credit tenants. Shopping malls are definitely turning more toward entertainment uses. Movie theaters are coming back into malls as anchors. Restaurants are becoming more integrated into the malls instead of being scattered around the mall on

pad sites. Entertainment concepts such as Round One, which offers bowling and amusements, are becoming more acceptable. It's important to do whatever you can do to draw foot traffic while not forgetting fundamentals, such as parking, visibility, and access.

With anchors like Sears and Macy's announcing multiple closures, what are some of the more creative approaches you have seen for replacing shuttered department stores?

Mayer: More and more entertainment uses are replacing department stores, whether that means live entertainment, sports bars, users like Dave and Buster's, movie theaters, or restaurant concepts. It's still difficult to repurpose traditional department store buildings, however, because they are not set up for many of the replacement uses that are being considered. It can be hard to divide these buildings, and so sometimes they have to be torn down.

Todd: A couple of the REITs [real estate investment trusts] have done interesting things. At the Natick Mall in Massachusetts, General Growth Properties brought in Wegmans Food Markets to take over the old JCPenney space, bringing a grocery store into the mall. Typical mall retail and a grocery store—that's an interesting blend of uses. Seritage Growth Properties replaced a Sears at the King of Prussia Mall outside of Philadelphia with a Primark [an Irish clothing retailer] and a Dick's Sporting Goods. Simon Property Group owns that mall, and the redevelopment likely benefits Simon as well because usually the Sears wing of a mall has less-desirable tenants because of the low foot traffic that Sears attracts. New uses will bring more foot traffic and attract higher-quality tenants.

Birdsall: Every mall is unique. If you own an A-plus mall, you're going to have no shortage of people who want to fill in the space. If you own a B or a C mall, you may have to think of a different use, and it may not be retail. It may be a medical facility or a self-storage facility. You may end up tearing down the department store and replacing it with a residential component. Residences, in particular, add value to the center, not only making it relevant to the market, but also helping to boost the shopping center's sales by putting more people on the site.

Bucksbaum: There is a tremendous amount of creative use that is possible. In many cases, almost anything that is done will be an improvement on the very low productivity of many of these department stores. A primary reason for these stores remaining open has been [that] they were fully depreciated. Because of this, the store contributed to the bottom line, but they were contributing next to nothing to the shopping center's success. If you replace a Sears with a Nordstrom, for example, you go from a store that was generating perhaps \$150 a square foot [\$1,600 per sq m] to one that generates approximately \$400 a square foot [\$4,300 per sq m]. Every mall is different, but in almost every instance, whether you put in a Nordstrom Rack or new restaurants or a theater, you are replacing very low-productivity uses with much more productive uses—and uses that pay higher rent.

What are the biggest challenges of incorporating more nonretail uses into shopping malls? Are shopping center owners teaming up with developers of other property types?

Birdsall: You can't assume that because it was a mall, it always has to be a mall. You have to look at what it has become and how that relates to the market. Often institutional developers don't want to think beyond retail because it's out of their realm of expertise. So they should bring in people who are experienced in other kinds of development. It can be very tricky with shopping malls because a lot of times the mall owner doesn't own the land that the empty department store and its associated parking occupy. A publicly traded company can generally devote only so many resources to addressing these kinds of challenges, so a lot more of these retail centers will likely end up in the hands of entrepreneurs because they can devote the time and effort to fixing these white elephants.

Mayer: Shopping malls have not traditionally been town centers with offices and apartments, but these are highly viable uses for these properties, especially if you can get enough density to support expanded hours for the retail portion. The office workers will use the mall in the daytime, and the residents will use it

in the evenings. The owner of the retail property will likely have to work with a development partner who really understands the other uses. But it's also important to partner with the municipality. If the municipality limits residential development on the property, there likely won't be enough density. The more density that we can put on a site—within reason—the more successful the interplay will be among all of the uses. In the suburbs, that will require structured parking.

Todd: There are a lot of differences between developing multifamily housing and developing retail. But you can't necessarily silo each function, because the different uses do need to work well together. Could some of the REITs start to integrate apartment expertise? Perhaps. Or they might just enter into longer joint-venture relationships than they have in the past, like we recently saw with Regency Centers Corporation and AvalonBay Communities at Market Common Clarendon in Arlington, Virginia.

Bucksbaum: If you own a retail property, it may be hard to envision it as something else. Maybe the real estate should be used for something other than retail. Every market is unique, but many suburban shopping centers can potentially lend themselves to uses associated with higher density, whether it's hotel development, residential development, office development, or medical or educational uses. You might not be able to generate the same level of income from these other uses as when the property was a vibrant retail-only center, but they can make for a more complete center. It's helpful to bring in someone who can look at it from the nonretailing perspective. In Cincinnati, we partnered with Steiner + Associates, which is well experienced with mixed-use development in a suburban environment. Together, we created a mixed-use center with hotel, residential, and office. It opened a year ago, and we couldn't be more pleased with how well the ancillary uses are complementing the retail.



Increasingly, the shopping experience spans digital and physical platforms. (© istock)

How much of a threat do online retailers pose to shopping malls?

Todd: Online shopping is just another medium for people to receive goods. Amazon is test-piloting drive-up grocery stores and convenience stores. For some items, it's more convenient for consumers to grab it on their way home than to order it online and have it shipped to them. It's really a battle for convenience and access to consumers. Omnichannel retail makes a lot of sense because you want to be a brand that delivers products to consumers, and it doesn't matter if you do that through a store or a website or deliver it via a drone. The best-performing retailers will be the ones who are able to use all facets of the supply chain.

Mayer: Everyone's worried about online shopping taking away sales from retail stores. But in 1995, sales from shopping catalogs and mail orders made up 10 percent of all retail sales. Now online shopping makes up 10 percent of all retail sales. So it's a shift and it's interesting, but it's just a change. Of course, that number could go up to 20 percent; we don't know. I think the future is in omnichannel retailing in which retailers provide a seamless shopping experience across multiple outlets, from physical stores to online sites. When consumers order a product online from a retailer, if it doesn't work out and they take it back to the physical store, they tend to spend even more money at the store than when they were shopping online.

What other significant trends are shaping the future of shopping malls?

Birdsall: Changes in consumer behavior are reshaping the need for parking. We already live in the age of Uber. If driverless cars really do come to pass, parking may not be such an issue for shopping centers anymore. If your car can drop you off and pick you up, you don't care where it's parked. It can park a mile away and come get you when you're done shopping.

Todd: For really strong properties in infill locations, driverless cars could be great because they could free up parking fields. We have an outdoor shopping mall in Huntington Beach [California] that we bought about a year and half ago. It's surrounded by interstate highways and offices and residences, and it has a large parking field. If driverless cars were common, we'd be able to build out those parking fields.

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