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REINVENTING THE MALL:

Shopping Centers Are Aging. Movie theaters Are In Trouble.
But Retail Landlords May Have An Ace Up Their Sleeve.

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Americans renew, reuse and recycle practically anything these days. From water bottles to airplane parts, you name it and the modern mind can reinvent it, even when it comes to two challenging real estate assets, the distressed mall and the struggling movie theater. While repositioning usually entails either demolition or a facelift, a third approach, reinvention, represents a compelling third option.



Evolving demand and supply dynamics have rendered more and more aging suburban malls and cinemas economically obsolete. Internet sales, power centers, lifestyle retail, and other competing formats have eroded the market share of outdated retail structures.

According to PricewaterhouseCoopers, nearly one out of every five regional malls in the U.S. now classifies as either a greyfield mall or a potential greyfield mall, defined as having less than \$199 in sales per square foot. Similarly, older cinemas have struggled with competition not only from new state-of-the-art theaters but also from increased home entertainment options. According to Motion Picture Association of America, overall box office admissions were 1.4 billion in 2007, down 13 percent from the peak of 1.6 billion in 2002.

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California's Eastmont Town Center has been redesigned and reinvigorated.

While some distressed mall sites and struggling cinemas are simply unviable because of greater socioeconomic forces, many properties are well suited for repositioning. For these viable sites, repositioning generally follows one of two courses.

One approach is to renovate and retenant the property. The other common strategy is to demolish the existing structure for new development such as a mixed-use community, big box retail, lifestyle center, or other new concept.

Another Plan

But while these two conventional approaches often are successful, there are many sites for which neither of these is the optimal solution. For some underperforming retail and cinema properties, a facelift may not be sufficient against surrounding competition, yet local conditions may not justify the construction and entitlement costs of wholesale demolition and new development. For these properties, owners and developers should consider a creative and unconventional strategy of reinvention that adapts and reuses the existing structure.

Like any nontraditional endeavor, this approach will present the challenges associated with veering from the well trodden path. How-

ever, the potential advantages make the reinvention approach more than worthy of consideration. By utilizing the existing structure, the developer is able to reposition the asset for far less than replacement costs.

Furthermore, the developer is able to manage entitlement risk, as the approval process is likely to be faster and less onerous and costly than in a demolition and redevelopment scenario. Based on these factors, the reinvention strategy may yield stronger returns than other approaches – including inaction. Furthermore, the reinvention approach may be an ideal interim strategy – generating positive returns on limited investment until surrounding socioeconomic conditions improve enough to justify the more costly demolition and redevelopment approach.

The Right Position

One potential key element of successful property reinvention is niche market positioning. The difficulties of many underperforming retail and cinema properties are due to site-specific disadvantages such as size and location. In order to compete with larger retail and entertainment venues that are often in more desirable locations, reinvented malls and cinemas must employ a niche marketing strategy.

Continued on Next Page

Continued from Previous Page

Successful niche positioning can be based on ethnicity, lifestyle, or other identifiers. Two local examples illustrate the power of niche positioning to trump prime location and Class A space. Conventional tenants would not view most of Super 88 Market's six locations as prime spaces. However, the Asian supermarket chain thrives by appealing to a market segment underserved by conventional grocers.

Similarly, in spite of its mid-block location on Pleasant Street in Watertown, the popular produce vendor Russo's achieves far-reaching appeal among the foodie segment whose needs are not met by conventional grocers.

The same positioning principles implemented successfully by these retailers can be applied on a larger scale to entire mall properties.

Selecting Tenants Key

Another potential component of an asset reinvention strategy is tenant diversification. Owners' retenanting efforts tend to focus on the usual retail suspects: major grocery anchors, national department stores such as Target and Kohl's, and national in-line chains like Starbucks and Radio Shack. However, by avoiding this inertia in their thinking, property owners and investors can inject life into their properties by radically rethinking their potential tenant list. In addition to retail, viable alternatives for vacant mall properties include office (both private and governmental), academic, medical, and even residential uses.

Although reinvention is a relatively novel approach, it is not without precedent. Select projects across the country illustrate the financial and architectural feasibility of reinvention. Although distressed malls typically may be of dubious architectural value, innovative owners can limit costs and achieve strong returns by maintaining core structural elements while adapting the space to new uses. Eastmont Town Center in Oakland, California is an excellent example of effective redesign and tenant diversification.

Known originally as the Eastmont Mall, the property was successful in the early 1970s through the mid 1980s with solid anchors, a movieplex, and flourishing in-line spaces. As socio-economic and market dynamics declined, and anchors JC Penney's and Mervyn's vacated their spaces, occupancy declined to 30 percent by the early 1990s.

Gaining no traction among conventional national retail tenants, owners Jack Sunski and Bob Bridwell boldly adapted the mall for an un-



conventional mix of tenants including government agencies, a health clinic, charter school, and a range of non profits. Having stabilized the space predominantly with office tenants, the owners were then able to attract a 30,000 square foot grocery store. The revived property has been not only an asset to the local community but also a financial success to the owners. In 2007, the owners sold the property, which by then had achieved 90 percent occupancy, to ScanlanKemperBard and Praedium Group for \$78 million.

Place Holders

In addition to the Eastmont Town Center, numerous other cases illustrate the benefits of the reinvention of distressed retail properties. Orland Park Place outside of Chicago, Ill., had struggled for years across from Simon Properties' 1.2 million square foot Orland Square mall, with occupancy as low as 10 percent in 1998. To occupy a more advantageous market segment, the owners reinvented the space by chopping and sealing the back half of the mall and putting up walkways on both levels.

By opening day a year later, the new power center had 70 percent occupancy with strong anchors such Barnes & Noble and Old Navy.

In Southern California's Orange County, when a United Artists theater shut down in the Brea Mall, owner Simon Properties chose to remodel the space as a day spa. The costs were minimal:

\$158,000 (\$12/sf) to level the theater space, fill in the theater's sloped floor, redo exits, and add natural lighting via skylights and glass walls. The results were positive: the spa not only provided rental income for the previously vacated space but also increased traffic at its particular mall entrance by 25 percent.

Fortune Favors The Prepared

While these examples demonstrate the financial and architectural feasibility of mall reinvention, most property owners and developers still stick to more traditional strategies. But market data suggests abundant opportunity to apply the reinvention strategy. According to CoStar, there are more than 1,200 shopping centers over 50,000 square feet in the United States built between 1960 and 2000 with occupancy below 65 percent. Approximately 40 of those are in New England. Could some of these spaces be revived by radically altering the targeted tenant mix and inexpensively redesigning the property to attract and support that mix?

When Target and Starbucks are not an option, perhaps owners would be wise to consider reinventing the space to cater to radically different roster of tenants. An organic coffee roaster, a furniture designer, an ethnic or eclectic grocer, and small companies in creative sectors like technology, architecture, and advertising are just some of the tenants that would comprise a unique, symbiotic, and compelling blend.

To appeal to these businesses, a savvy owner could perform imaginative and appealing yet inexpensive improvements such as greenery, pergolas, and even fire pits outside and architectural lighting, central courtyard, and skylights inside. Like Russo's and Super 88, such a unique and compelling retail community could generate a wide radius of demand.

The proposed "anti mall" above represents just one resourceful approach. It certainly is not the solution for every site, but other equally innovative options exist. Every property is different, but the upside of reinvention is significant.

In 1956, Victor Gruen's plan for the first enclosed shopping mall was a bold concept with an uncertain future. But in the ensuing half century, his once-daring concept became a proven archetype upon which developers relied. Today, the greyfields left in the wake of Gruen's legacy – and their strip center retail cousins – now require new wave of innovative thinking. If we can recycle water bottles and airplane parts, why not shopping centers? ■

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