

## **REGIONAL MALL CONVERSIONS**

**By:**

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Regional mall conversions are underway across the United States. The mall business has changed dramatically since the 1960's and 1970's when many of the 1,172 regional malls in the United States were built. Many of the older malls have outgrown their life cycle in their current configuration. New malls, power centers, power towns, and lifestyle centers have reduced the market penetration of many older Class B and Class C malls. Even some Class A malls have been impacted by newer retail formats, particularly, lifestyle centers. Also many urban malls (in-city) have undergone ethnic and income transition while others have been impacted by newer suburban mall competitors.

The major shift in consumer orientation toward big box discounters and freestanding retail facilities can be attributed to the convenience these facilities provide for the growing number of working women. Mall owners have recognized these trends and have undertaken conversions focused on this major change. Local governments have become more aggressive in forming public/private partnerships with mall ownership to revitalize older malls and protect both property and sales taxes.

Department store closings has been driving mall conversions. Closings have significantly reduced the number of potential replacement candidates for shuttered department stores like Montgomery Ward, Jacobsen's, , Sears, Penney's, Marshall Field's, Dillard's, The May Company, Federated, Sak's, and many others. Conventional department stores are not expanding and in fact, are closing under performing stores. Marshall Field's recently announced plans to exit the Columbus, Ohio market selling the two stores to the May Co. Mall owners, faced with a shrinking pool of department stores, have embraced big box retailers, category killer stores, supercenters, lifestyle components, and pavilions in their mall redevelopment strategy. Unfortunately, many of the big box discounters have not

operated two level stores until recently and this has made leasing second-generation, two level anchor stores difficult. Some mall owners have razed vacant department stores or portions of the mall to add hotels, office buildings, auto dealers, universities, trade schools, government offices, police stations, health clubs, and medical and dental clinics, among many others. Unfortunately, the value of many of these malls will never reach their original values even following the conversion.

In the United States only two regional malls will open in 2003 including Short Pump Town Center in Richmond, Virginia and St. Louis Hills in Hazelwood, Missouri. Seven regional malls opened in the U.S. in 2001 and another nine regional malls opened in 2002. Many developers have developed lifestyle centers instead of regional malls. Lifestyle centers are generally between 300,000 and 600,000 square feet although some are larger. The facility usually contains stores that cater to an upscale lifestyle in a convenient environment with ample parking. Lifestyle centers are typically open air with an urban "Main Street" feel. Some have two story facades to simulate the Main Streets of the past. City planners love the Town Center architecture and retailers have embraced them due to their convenience and lower occupancy costs. Common area maintenance charges are significantly reduced in this open-air environment. Lifestyle centers are generally easier to get approved than a major regional mall.

The major mall REIT's are growing through acquisitions. Most are focusing on redevelopment of existing centers. There simply are not enough conventional department store companies building new stores to drive new regional mall growth. Big box stores are driving mall conversions today. For example, Federated is expected to open only 12 new stores in 2003. The fastest growing segment is big box department stores like Wal-Mart, Target, Kohl's, Costco, Home Depot, Lowe's, and others. For example, Kohl's is expected to add 80 stores in 2003. In 2004, Kohl's will enter Phoenix and Las Vegas. Target is expected to add 80 new stores in 2003 including 23 Super Target stores. There are already 94 Super Target stores in the U.S.

Corrigan Properties, Inc. headquartered in Dallas, Texas is planning a \$100 million expansion of Bayshore Mall located in Glendale, Wisconsin (a Milwaukee suburb). Corrigan and the City of Glendale have formed a public-private partnership to redevelop the 500,000 square foot enclosed mall anchored by Boston Store and Sears. Kohl's department store has an adjacent freestanding store not connected to the mall. The project envisions razing a portion of the mall and adding marquee retailers, specialty stores, restaurants, and entertainment venues in an open-air "town center" format. The City of Glendale provided unprecedented leadership to acquire property around the mall and facilitate the 300,000 square foot expansion. Melaniphy & Associates, Inc. has conducted market and economic feasibility studies for Bayshore Mall and many other malls including the Mall of America.

Mid-America Real Estate Corp., headquartered in Oak Brook, Illinois, is spearheading a major mall conversion of the 870,000 square foot Brickyard Mall in Chicago for an investor group. Brickyard Mall was anchored by Montgomery Ward, JC Penney, and Kmart. The conversion will transform the defunct regional mall into a power center anchored by Target, Jewel-Osco, Home Depot, and numerous specialty stores. The city of Chicago is providing TIF financing to assist with the demolition of the mall. Interestingly, the city of Chicago is encouraging the developer to incorporate "ecoroofs" or green rooftop gardens at the redeveloped center. This is one of Chicago Mayor Daley's initiatives which has already been implemented on the roof of City Hall.

The Simon Property Group is undertaking a conversion of the 992,000 square foot Richardson Square Mall in Richardson, Texas anchored by Dillard's and Sears. Simon will add a 175,000 square foot Super Target in the vacant former Montgomery Ward space. Costco is interested in the Sears space. Sears is expected to anchor Simon's Firewheel Town Center in neighboring Garland, Texas and is considering vacating the Richardson Store. Previously, Simon added Barnes & Noble and Old Navy. The hurried working woman today has a high frequency of visit to these big box retailers.

In Kansas City, Missouri the 834,00 square foot Ward Parkway Center is undergoing a mall conversion four decades after it opened. The centerpiece of the conversion strategy and expected rebirth of the center is a 120,000 square foot Target store. Although Ward Parkway leased over 200,000 square feet, the conversion reduced the overall size by 80,000 square feet. The other planned tenants include Starbuck's, Pier One Imports, and 24-hour Fitness. The anchors included Dillard's, JC Penney, and Montgomery Ward. Target will join Dillard's and Dicks Sporting Goods the other two anchor tenants. The objective of the conversion is to adjust the tenant mix to give the consumer what they want: a major Target store.

In September 2002, the 1.2 million square foot West County Center in St. Louis, Missouri reopened after a \$237 million conversion undertaken by Westfield America Trust. The mall added several new retailers' to St. Louis market including Nordstrom, Coldwater Creek, Adrienne Vittadini, Galyan's, and Apple Computer. This was the biggest redevelopment project undertaken by Westfield America Trust in the United States. Westfield identified an opportunity to bring unique retailers to the St. Louis market to differentiate West County Center from their competition. Sales are expected to reach nearly \$350 million.

The 1.7 million square foot Gurnee Mills Mall in Gurnee, Illinois continues to evolve through conversion of vacant anchor stores. Gurnee Mills plans a major renovation including new facades, signage, entrance enhancements, parking lot upgrades, carpeting, kiosks, and a fashion district. The Mills concepts around the country have evolved into a hybrid of conventional big box stores, super-themed retailers, outlet stores, restaurants, and entertainment venues. In recent years, the mall added Bass Pro Shop Outdoor World, Sports Authority, Bed Bath & Beyond, Marshalls Megastore, VF Factory Outlet, Value City, and Gurnee Marcus Cinema. Circuit City relocated to the mall from an adjacent power center. Kohl's department store is relocating to the mall from the same power center as Circuit City. Circuit City nearly tripled their sales. Sears announced plans to open a 200,000 square foot off-mall concept store called Sears Plus in the vacant former Waccamaw space. Sears plans to open five of these test stores with the first to open in a

Salt Lake City suburb next year. The off-mall stores will carry the more traditional lines of apparel, appliances, and automotive as well as dry grocery products, house cleaning products, CD's, magazines, and greeting cards. At one time the mall was anchored by Filene's Basement, Sears Outlet, Sym's, Phar Mor, Penney's Outlet, Spiegels, and Waccamaw Pottery. Any Others?

In Milwaukee, Wisconsin Northridge Mall was affected by income and ethnic transition. Northridge Mall was a 1.1 million square foot regional mall that lost three of its anchor tenants and is expected to close the fourth shortly. The anchor tenants included JC Penney, Younkers, Sears, and the soon to be closed Boston Store. Tucker Development Corp based in Highland Park, Illinois purchased the \$100 million mall for \$3.5 million and plans a redevelopment. The new center, Grandville Crossing, envisions a new Menards home improvement store and a Pick 'N Save supermarket. The City of Milwaukee provided tax increment financing to fund the redevelopment.

Today, malls across the country are reinventing themselves in order to reverse their declining consumer patronage. Big boxes represent the solution since most conventional departments stores are either stagnant or are declining in sales and market share.