

Turbulence In Chicago's Suburban Malls

Whether reacting to lifestyle centers, Target or department store fall-out, a study shows that leasing is active at Chicago's suburban regionals.

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While many pundits are proclaiming the death of the mall, only about 400 malls worldwide out of more than 4,000 (about 10 percent) have been or are being converted to some other use. Conversely, there are over 3,600 malls competing successfully in the market place. The mall is not dead, but it does in many cases need some type of speed injection. More importantly, many department stores must find a long-range success formula to not simply survive, but to prosper and reestablish their former generative qualities. Today, mall leasing programs must be very active and creative to add new excitement and "in-demand" retailers to fill vacated space.

In 1996, my staff and I examined the changes that took place in Chicagoland malls from 1985 to 1995. This included all occupants. In that study released in 1996, we found that the average overall 10-year store turnover in major suburban Chicagoland malls was approximately 66 percent. That means that the average suburban Chicago area mall replaced about two thirds of its occupants over a 10-year period with new tenants. At that time, we found that Woodfield Mall recorded 66 percent of new stores, Old Orchard's new stores amount to 75 percent, Northbrook Court recorded 68 percent of new stores, and Ford City reported new stores at 76 percent. This provides a benchmark for the previous 10-year period analyzed.

This year I decided to look back to

1995 and review the changes that have taken place to mid-2003. While it has not been 10 years since our last study, significant changes have occurred affecting retailing in general and malls in particular. Most notable have been the incredible sales growth and development proliferation of big box retailers, the decline of department store sales and market share, the pattern changes in consumer orientation, the time pressure on shoppers, the rising cost of mall occupancy, and the new popularity of lifestyle centers, among others. My staff and I have tracked the current changes in suburban Chicagoland mall tenancy overall and by individual store categories. These include: department stores, women's apparel and accessories, men's and women's apparel, men's apparel, unisex apparel, children's apparel, jewelry, shoes, home furnishings, music, electronics & video, sporting goods, cards & gifts, specialty shops, book stores, food and restaurants, entertainment, and services.

In order to analyze the changes that have taken place in the 23 suburban Chicagoland malls, we have catalogued retailers in Charlestowne Mall, Chicago Ridge Mall, Evergreen Plaza, Ford City, Fox Valley Center, Golf Mill Mall, Gurnee Mills, Harlem- Irving Plaza, Hawthorn Center, Lincoln Mall, Lincolnwood Town Center, Louis Joliet Mall, North Riverside Park, Northbrook Court, Oak Brook Center, Old Orchard Center, Orland Square, Randhurst Center, River Oaks Mall, Spring Hill Mall, Stratford Square, Woodfield Mall, and Yorktown Center. These

malls comprise the major department store concentrations. While there are four major vertical malls on North Michigan Avenue in downtown Chicago, they have not been included and will be the subject of future analysis.

For each mall, we went back to our 1995 list of tenants generated during two weeks in 1995. Next, we compiled a similar list in July of this year. We then compared the tenant lists to see which retailers were still there, who had been added, and which stores had exited the mall. Our objective was to see how many stores were added and how many retailers left the specific malls. Thus, our definition of mall turbulence. The analysis also included categorizing the occupants by selected retail categories so that we could measure where the changes were actually taking place. It should be noted that actual store turnover is probably greater than what we have found because some retailers have entered the malls after 1995 and left before mid 2003. It appears that the closing of major department stores accelerated these retailer actions.

While over 25 million square feet of new retail space has been added to the Chicago market over the past 5 years, no new malls have been added to the Suburban Chicagoland market. In fact, the last mall added was North Bridge, anchored by Nordstrom, located on North Michigan Avenue, in 2001.

The closing of department stores by Montgomery Ward, JC Penney, and Sears has had a major impact upon many Chicagoland suburban malls.

Saks closing at Oak Brook Center and its replacement by Bloomingdale's furniture will have some impact upon the nearby mall stores. Randhurst Mall and Lincoln Mall each lost two department stores — Montgomery Ward and JC Penney, while Old Orchard added two — Nordstrom and Bloomingdale's. The Brickyard Mall also lost both Wards and Penney's and ceased being a mall. Ward's demise resulted in store clos-

ings in Randhurst, Yorktown, Brickyard, Evergreen Plaza, Stratford Square, Chicago Ridge, North Riverside, and Lakehurst. Lakehurst also lost JC Penney, essentially eliminating it as a major mall. During this period, Golf Mill, which had been struggling, added both Kohl's and Target. Gurnee Mills, with 16 anchors, has seen its major generators change dramatically with the loss of Filene's Basement, Macy's Close-

Out, Sears Outlet, Spiegel's, Waccamaw Pottery and others. Gurnee Mills as added Bass Pro Shop, Kohl's, Circuit City, and a soon to be included Sears Grand.

Our study of mall turbulence probably represents the minimum amount of turnover because we have analyzed only two points in time. Other changes have likely occurred during the intervening period especially with small retailers, kiosks, and temporary tenants. Nonetheless, this provides a significant look at mall turnover in suburban Chicago.

The 23 malls examined had a total occupancy in July 2003 of 3,562 stores. Vacant spaces were not included. Since 1995, approximately 63 percent of the stores have been new entrants to a major suburban Chicago mall. This is slightly less than the turnover experienced between 1985 and 1995. However, the current analysis covers only 8 years. Thus, the overall turnover is no doubt higher than the previous 10-year period. New mall retailers added between 1996 and 2003 amounted to 2,236 stores of the current 3,562 mall tenants. During this same period, 1,851 stores exited the malls.

Table 1 presents the Chicagoland malls and their Turbulence percentages. Again, turbulence is focused principally upon new stores entering the malls, and to a lesser extent stores exiting the malls. The percentages are based upon the total number of current stores. Thus, is possible to be adding stores on the positive side and yet have more stores exiting the mall on the negative side. Old Orchard has the highest percentage of new tenants between 1996 and 2003 at 89.1 percent (114 new stores), the result of the significant remodeling and department and specialty store additions. It also had the lowest percentage of stores exiting the mall (21.1 percent). Oak Brook Center was the most stable mall with 53 percent (88) new stores and 45.8 percent store exits (76). Yorktown Center is also fairly evenly balanced with 51.8 percent new stores (72) and 41.4 percent exiting retailers (59). Gurnee Mills, one of the most active malls with 243 current

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TABLE 1

CHICAGOLAND MALLS STORE TURBULENCE 1996 - 2003

<u>Malls</u>		<u>Stores</u>	<u>Percent</u>	<u>Malls</u>		<u>Stores</u>	<u>Percent</u>
Charlestowne Mall	Existing	79		North Riverside Park	Existing	157	
	New	45	57.0%		New	115	73.2%
	Out	82	103.8%		Out	70	44.6%
Chicago Ridge	Existing	163		Northbrook Court	Existing	148	
	New	104	63.8%		New	106	71.6%
	Out	89	54.6%		Out	90	60.8%
Evergreen Plaza	Existing	116		Oak Brook Center	Existing	166	
	New	56	48.3%		New	88	53.0%
	Out	163	140.5%		Out	76	45.8%
Ford City	Existing	210		Old Orchard	Existing	128	
	New	148	70.5%		New	114	89.1%
	Out	85	40.5%		Out	27	21.1%
Fox Valley	Existing	174		Orland Square Mall	Existing	160	
	New	108	62.1%		New	102	63.8%
	Out	101	58.0%		Out	75	46.9%
Golf Mill	Existing	127		Randhurst Center	Existing	127	
	New	89	70.1%		New	84	66.1%
	Out	114	89.8%		Out	84	66.1%
Gurnee Mills	Existing	243		River Oaks Mall	Existing	136	
	New	134	55.1%		New	92	67.6%
	Out	116	47.7%		Out	38	27.9%
Harlem-Irving Plaza	Existing	94		Spring Hill Mall	Existing	132	
	New	49	52.1%		New	82	62.1%
	Out	67	71.3%		Out	73	55.3%
Hawthorn Center	Existing	146		Stratford Square	Existing	245	
	New	70	47.9%		New	142	58.0%
	Out	82	56.2%		Out	96	39.2%
Lincoln Mall	Existing	82		Woodfield	Existing	359	
	New	48	58.5%		New	232	64.6%
	Out	67	81.7%		Out	99	27.6%
Lincolnwood Towne Ctr	Existing	103		Yorktown Center	Existing	139	
	New	75	72.8%		New	72	51.8%
	Out	47	45.6%		Out	59	42.4%
Louis Joliet Mall	Existing	128					
	New	81	63.3%	Total Mall Stores			3562
	Out	51	39.8%	Total New Mall Stores			2236 62.8%
				Total Exited Stores			1851 52.0%

Source: Melaniphy & Associates, Inc., 2003

stores, added 134 new stores or 55.1 percent new stores while losing 116 stores or 47.7 percent. Woodfield Mall is the largest Chicagoland mall complex with 359 current stores. The mall added the most stores during the 8-year period — 232 stores or 64.6 percent. That represents an average of 29 new stores a year. Exited stores amounted to 99 retailers or 27.6 percent. Stratford Square, the second largest in total stores with 245, added 142 new stores (58

percent) and lost 96 stores (39.2 percent). Lincoln Mall's numbers reflect the loss of two department stores. While the Mall added 58.5 percent new stores (48), it lost 81.7 percent of its stores (67).

Northbrook Court, with 148 current stores, added 106 new stores which accounted for 71.6 percent while exited stores amounted to 90 units or 60.8 percent. Orland Square with 160 existing stores added 102 new stores repre-

senting 63.8 percent while it lost 75 stores accounting for 46.9 percent. Charlestowne Mall and Evergreen Plaza each experienced more exiting stores than new retailers. Charlestowne added 45 new stores or 57 percent of the existing stores while losing 82 stores or 103.8 percent of existing stores. Remember, the base for percent calculations is the current number of stores. In our opinion, the new Geneva Commons lifestyle center has impacted the

TABLE 2

MALL TURBULENCE
SUMMARY OF 23 MALLS
INDIVIDUAL RETAIL CATEGORIES
1996 - 2003

Categories	New Stores	Stores Exited
Department Stores	19.1%	18.1%
Women's Apparel	61.2%	68.6%
Men's Apparel	61.5%	82.8%
Unisex Apparel	68.0%	35.1%
Children's Apparel	68.4%	6.6%
Jewelry	64.6%	32.7%
Shoes	55.6%	64.7%
Home Furnishings	70.2%	50.0%
Music, Electronics & Video	74.0%	49.0%
Sporting Goods	56.9%	43.1%
Cards & Gifts	64.1%	48.7%
Specialty Shops	70.8%	50.2%
Book Stores	28.6%	28.6%
Food and Restaurants	54.0%	43.6%
Entertainment	66.7%	23.8%
Services	66.1%	85.0%
Total	62.8%	52.0%

Source: Melaniphy & Associates, Inc., 2003

Charlestowne Mall both in terms of sales and lost tenants. Evergreen Plaza added 56 new retailers or 48.3 percent of existing tenants, but lost 163 stores representing 140.5 percent of existing stores. On the positive side, River Oaks with 136 current stores added 92 new stores or 67.7 percent, while losing only 38 stores or 27.9 percent. Conversely, Golf Mill added 89 new stores or 70.1 percent, but lost 114 stores or 89.9 percent of exiting retailers. All of the 23 malls can be viewed in Table 1.

Table 2 presents the data regarding turbulence within the Chicagoland mall retail categories. Categories with more exiting retailers than new additions include women's apparel and accessories, men's apparel, shoes, and services. These numbers reflect, in our opinion, the continuing problem of consumer orientation to casual ware and the difficulty on the part of apparel retailers to predict what the consumer wants. My son, John, constantly reminds me that the shopping center industry (including retailers) should go back to wearing suits and ties to help resurrect

the apparel business. Not a bad idea when you really think about the impact that such an action would have and the turnover rates reflected in this analysis.

All other retail categories showed positive results with new stores exceeding exiting units. Several are more significant than others. For example, new stores in the children's apparel category recorded 68.4 percent for all malls and only 6.6 percent for exiting retailers. New jewelry stores accounted for 64.6

percent and only 32.7 percent of exited units. Jewelry stores have reflected a considerable number of new entrants while retaining many of the old occupants. Unisex apparel reflected 68.0 percent for new stores and only 35.1 percent for exits. Book stores showed the most stability with both new and exiting stores balanced at 28.6 percent. Music, electronics & video has seen a dramatic change with Internet copying and a significant decline in the purchase of CDs. Thus, this category will see an increase in store exits for major malls. Stores in this category experience new stores of 74 percent and an exit of stores of 49.0 percent. Entertainment is a bit misleading because of the turmoil that has been experienced in the cinema business. Entertainment continues to be a difficult retail category.

WHAT DOES ALL OF THIS MEAN?

- It means that mall leasing has become a tougher business for almost all malls. Tenants are getting smaller, re-

quiring more of them to fill malls which are generally too big for today's market. Vacancy is rising and will continue to do so until more generative retailers are found who interact positively with smaller specialty stores.

- One would hope that department stores would find a more localized merchandising answer to Chicago's needs. Unfortunately "sameness" only complicates the department store problem.

- Many retailers are leaving the malls because rents and CAM charges have gotten too high to operate profitably, especially if their sales are not growing. Mall sales growth must be a primary objective of mall ownership. The mall must return to the "appealing marketplace" that made them the primary attraction. Department stores are no longer as important as they used to be. New programs are needed to attract customers because of the specialty store mix. A collective response — especially to Target — is needed. Wal-Mart is important, but not as important as Target in Chicago, where Target has captured the hearts and minds of young women and mothers.

- Malls need to add more restaurants and less fast food to increase evening and weekend business. This is tricky but when done right will improve mall traffic. One needs only to see what some of the more successful lifestyle centers have done in this regard.

- If Navy Pier, a seasonal attraction, with only limited retailing and restaurants can attract over 8 million visitors annually, then major malls should be able to increase customer counts with imagination and ingenuity. **SCB**

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