



What's A Mall To Do?

Have we gone from the “mall of America” to the “mauling of malls?” Not if mall landlords have their way. True, the age of building dozens of malls every year has passed. A majority of the 1500 malls in the United States are located in mature, fully-developed areas that don't necessarily continue to have the same demographic and physical characteristics they had when they were built.

Once at the edges of metropolitan concentrations, these malls now find themselves in urban locations with higher densities and increased congestion. Their trade area populations have changed as well. Where families with one working parent were dominant, two-income families now reside along with non-traditional household types, including singles, retirees, empty-nesters, and the elderly.

At the same time, competition from overbuilding and other retail venues has become intense. The middle class consumer that fueled the growth of malls is being courted from both ends of the price spectrum. Big box retailers, off-price outlet malls, and on-line shopping are attracting cost-conscious consumers, while boutique and lifestyle centers cater to more affluent shoppers. And busy consumers of all price points are demonstrating a preference for shopping within walking distance of home or work, or for street front stores with nearby parking.

To that list of challenges, add rising interest rates, a cooling housing market and economy, reduced home equity extraction, increased energy, building materials and labor costs, and major retailer consolidations.

So how are landlords responding? Solutions run the gamut from demolishing the mall and using the land for an updated version or something completely different, to what Simon Property Group calls “asset intensification,” adding non-retail components to the mall. Lying in between are plans to expand or downsize the mall; integrate the mall with its surroundings by replacing parking areas with linkages to the community; reopen the enclosed mall to the outdoors; convert vacant department stores to outdoor spaces connected to the enclosed mall; incorporate non-traditional elements such as grocery stores or community facilities; or add off-price stores to the mall's offerings.

The goal, like any product, is differentiation, with an eye toward evolving consumer tastes. Malls with favorable demographics can appeal to consumers' desire for convenience by integrating non-retail uses into their sites. Examples nation-wide include everything from movie theaters, night clubs, sports arenas, and sit-down restaurants to hotels, office space, apartments, condominiums, off-campus university facilities, and even city halls, recreation complexes, museums, and public outdoor spaces. Mixed-use is today's term for the urban pattern that occurred naturally over a century ago, before zoning.

These same trends appear in new suburban neighborhood and community centers, infill locations in inner cities, and older suburbs. The emphasis is on accessibility and the convenience of multi-purpose trips. Redevelopers of older areas are finding a ready market among baby boomers ready to give up their large homes and young singles and married couples who prefer a more urban lifestyle.

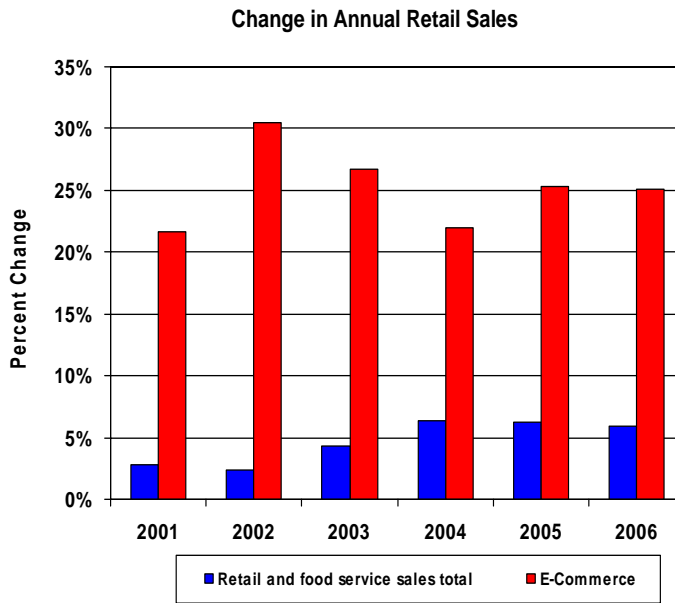
The types of retailers achieving the greatest success cluster at the upper and lower ends of the pricing spectrum. Consumers who want both quality and value are fueling Target's and Kohl's success. Wal-Mart appeals to the most cost-conscious consumers. For more affluent consumers who have benefited from rising stock prices and lower tax rates, luxury retailers such as Neiman Marcus and Coach are expanding in numbers and locations. Those in between are getting squeezed. The high/low trend is occurring among grocery retailers as well. Wal-Mart is pursuing the value shopper, with increasing competition from Target, while Whole Foods is serving the upper end.

Estimated Sales Change - 2005 – 2006

Sporting goods	13.0%
Non-store retailers	10.7%
Building material & garden equipment & supplies dealers	9.5%
Food services & drinking places	8.0%
Pharmacies & drug stores	7.9%
Furniture & home furnishings stores	7.8%
Health & personal care stores	7.4%
Electronics & appliances stores	6.7%
Clothing & clothing accessories stores	6.4%
Grocery stores	4.1%
Motor vehicle & parts dealers	1.4%
Department stores	-1.0%

The retail sectors experiencing the greatest sales growth in 2006 included housing related sectors. Department stores recorded a slight decrease in sales. Sales by non-store retailers, which include online retailers and mail order businesses, were topped only by sporting goods stores. Retailers are realizing gains can be achieved by integrating their bricks and mortar locations with online and catalog sales channels.

Whether purchasing online or not, consumers find the Internet to be their preferred method of gathering information and comparison shopping before buying. Even a stable retailer like Macy's finds that the majority of their online sales come from customers located within 30 miles of a store. Macy's believes these customers either browse the store and later buy online, or evaluate purchases on Macy's website and later buy in a store. While total retail sales have increased between three and seven percent per year, e-commerce increases have been in the range of 20-25%, and as of fourth quarter 2006 accounted for 3% of all retail sales.



Source: US Census Bureau



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