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ED Now Feature: Reinventing Malls for What You Can't Get Online

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"We drill for oil above the Arctic Circle in some of the worst conditions known to man. Surely we can drop broadband across rural areas in the Midwest."

William Goad, Washington County, Mo., 911 dispatch director

tags: commercial real estate, e-commerce, malls, retail
Eli Dile on Monday, September 17, 2018 at 9:01:00 am

By Aaron N. Gruen, Gruen Gruen + Associates

In 1979, Joan Didion wrote in *The White Album: Essays*, malls are "toy garden cities in which no one lives but everyone consumes..."

Malls as the preferred sources of retail consumption were first disrupted by the advent and expansion of power centers, beginning in the 1980s. Power centers, generally of 250,000 to 600,000 square feet – containing big-box category killers and discount mass merchandisers, with few small retail tenants – typically were built near regional malls and other high-traffic commercial corridors.

Beginning in the late 1990s and early 2000s, the growth of e-tailing began to negatively impact poorly located and configured Class B and Class C malls with weak anchor tenants, and commodity-like power centers. In addition, the expansion of off-price retailers (such as TJX Companies, Ross, Burlington, and Nordstrom Rack) have lured shoppers away from mid-line, department-anchored malls. While department stores such as Sears and JC Penney, Macys, and Bon-Ton continue to experience declining foot traffic, slash store counts, or go out of business completely, off-price retail continues to expand.

Demographic and employment center shifts also caused earlier malls to lose relevance. Later-generation malls and other retail formats with more desirable tenancies have located closer to where a greater density of higher spending shoppers now live and work. The growth of e-tailing is likely to continue pressuring mall retailing and mall real estate to evolve and respond to the loss of on-the-ground customer traffic and sales.

Experiences and services enter the mix

In places where the demographics and local real estate market conditions are supportive, mall owners and asset managers will be able to replace closed department stores by transforming the tenant mix to other retail, including non-traditional mall anchors such as Target and Dick's Sporting Goods.

In most other cases, however, Didion's characterization of malls will need to change. For example, closed or poorly performing retailers will need to be replaced with experiential tenants – those that cannot readily be replaced by the internet. Entertainment, food and beverage, and services will be potential replacement solutions. For example, tenants providing organic takeout meals, high-grade services like health spas, and facilities for pets such as dog hotels illustrate retailers not easily replaced online, and which benefit from (and contribute to) mall traffic.

In Brookfield, Wisconsin, a western suburb of Milwaukee, CBL Properties is demolishing a closed Sears store and constructing a Marcus Theatres' BistroPlex and WhirlyBall entertainment complex. The WhirlyBall complex will include WhirlyBall courts, eight bowling lanes with lane-side service, a four-lane "VIP" bowling suite, and a multi-level laser tag arena. The entertainment center will also offer a full-service restaurant and bar, private and semi-private event spaces and an outdoor patio and terrace. The city of Brookfield, through a

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public-private partnership, will develop a new hotel and conference center on property south of the Sears store where a Sears Auto Center was located on a mall outlot.

In another example, Bohannon Development Co. has demolished a closed Sears store at the Hillsdale Shopping Center in San Mateo, California.^[1] Replacing the Sears store are a luxury cinema, Cinepolis, and Pinstripes, an upscale bowling alley with bocce courts, on-site bistro and meeting space; contemporary eating and drinking establishments; and communal gathering space and outdoor amenities.



Rendering by the architects for the Hillsdale Shopping Center's transformation: els Architecture + Urban Design, Berkeley, California

Summit this January in Fort Lauderdale, Florida.

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Targeting local demographics

In trade areas which include more Hispanic and Asian households, Class B and Class C malls may be able to replace closed, mid-line department stores with Hispanic and Asian grocery chains, and a cluster of ethnic restaurants that appeal to all.

Boulevard Mall – a formerly dominant, 1.2 million-square-foot mall built two miles east of the Las Vegas Strip in 1968 – was buffeted by the development of the Fashion Square mall on the Strip in 1981, as well as the shift of household shoppers to fast-growing suburbs such as Summerlin and Green Valley. The residential demographics around Boulevard Mall became increasing Hispanic and Filipino; now the mall gears community events, services, and stores to serve these customers.

The current owner of Boulevard Mall has replaced a 200,000-square-foot closed Dillard's department store with non-traditional tenants that include a call center, a Goodwill store and training center, and a 60,000-square-foot restaurant/entertainment center. A former Circuit City store was replaced with a 99 Ranch Market, an Asian supermarket. A SeaQuest Interactive Aquarium has been added, as well as a 40,000-square-foot entertainment complex featuring go-karts, mini-golf, laser tag, and climbing walls. Anthem Blue Cross Blue Shield is opening a large office in the Macy's store that closed in 2017. Macy's sold the former store to an affiliate of the mall owner.

In places where the trade area contains a high share of family or elderly households, the tenant mix may be able to be shifted to professional office space for dentists, doctors, physical therapists, and other service providers who benefit from proximity to a dense household base and growing health-care needs.

Schools, churches, and other uses, such as apartments or assisted living facilities, could also occupy former retail mall space.

Market research and conditions are key

Which of the above types of tenancing and use options is best or most feasible depends upon local demographic and real estate demand and supply conditions. Frequently, demographic and behavioral research is required to identify what will respond best to the preferences of customers in the trade area, and what they will reward with their time and money. It also requires an analysis of the productivity and mix of the existing tenant base, given the identified customer demographics, preferences, and shopping patterns.

Whatever the tenanting or use option, the key is both to provide the type of experience and convenience that a shopper cannot get from sitting at home, and to eliminate the sameness that fails to differentiate the mall from the competition. To become and stay relevant, malls will become much more mixed and not just a place for retail consumption. Instead, the relevant mall will be where people go for entertainment and education (concerts, art shows, plays, movies, farmer markets, and classes), health, fitness, and beauty, and stay overnight at a hotel – or to work and/or live.

Retail operates under the law of creative destruction. It will continue to undergo revolutionary shifts, driven by continuous changes in demographics, attitudes and tastes of consumers, and technology. Formats will change and new concepts will arise and thrive. To remain or become relevant, many Class B and C malls will need to expand beyond the limited function described by Joan Didion nearly 40 years ago.

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[i] The developer David D. Bohannon of the Hillsdale Shopping Center and the original development of Hillsdale itself is frequently referenced in the 'On the Mall' essay of Didion's [White Album](#). Id. at pages 181, 182, 183, and 185.

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