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ED Now Feature | Transform Shopping Malls Into Mixed-Use Developments

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Most traditional malls can no longer be sustained solely as places for shopping transactions, but rather must become places consumers prefer to visit to make the most quality and efficient use of their time. Regional malls, especially traditional Class B and Class C malls, have suffered from on-the-ground and cyberspace supply competition and changes in consumer shopping patterns. Hundreds of traditional department store-anchored malls have closed since their peak of approximately 2,500 in the 1980s, and many additional Class B and C malls will close. Communities, developers, and real estate asset managers will continue to need to reimagine and reinvent no longer viable malls into mixed-use redevelopments.

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The availability of large amounts of land, building space, parking capacity, and typically superior access to roadway connections, provides the physical resources to transform malls from predominantly single-use spaces to a dramatically more varied mix of uses. Malls can become dense and walkable mixed-use environments that appeal to multigenerational consumers, and mall properties offer the ability to host a mix of experiences and services not easily duplicated online. A more varied mix of uses generates higher foot traffic and vibrancy at different times of day for more revenue-generating opportunities, including greater support for retail uses.

Common features of successful mall reinvention

Market area dominance primarily depends upon three factors: location, size, and tenant/use mix. To maintain and enhance the position of a mall, a critical mass of uses is required to induce frequent multipurpose visits from a wide geographic area. This could include a combination of hard and soft goods retailing with **grocery components** such as a Trader Joe's or Whole Foods.

Food and beverage concepts, from food halls to curated food courts to farmer markets to food trucks are frequently key to increase visits, generate customer foot traffic for non-food uses, and increase the hours of visitation. Eating and drinking together creates memorable (Instagrammable) moments and family and community engagement, and is almost always an important factor in rebranding obsolete malls.

Healthcare and fitness services proximate to "restaurant rows" encourage multipurpose and frequent visits. For example Southdale Center in Edina, Minnesota, the nation's first indoor regional shopping mall, **attracted a Life Time Fitness** to occupy a former JCPenney store. The fitness center also includes coworking space.

Educational and cultural institutions integrated with green space, such as a branch of a museum, community college, or other educational institution, can replace the department store as an anchor that generates community connection and engagement and spills sales over to retailers and restaurants. As an example, a 48,000-square-foot immersive art museum, Arte Museum, has recently been attracted to Santa Monica Place located in Santa Monica's Third Street Promenade shopping district. Learning and gathering is an essential part of new and exciting experiences that a mall property can host. Attracting and sustaining educational and cultural uses, however, frequently requires public financial support.

Multifamily housing uses reinforce demand for other uses and contribute to a 24/7 atmosphere. A reimagined mall provides amenities and services that enhance the appeal of the location for multifamily housing. Malls are also often near employment centers. A key component of the redevelopment of **Hawthorn Mall** in Vernon Hills, a Chicago suburb, includes the replacement of a former Sears store with 311 apartment units as well as the development of 162 units of senior housing.

In tourism markets such as Scottsdale, Arizona, **hotels** may be part of the land use mix. For example, the first non-gaming hotel from Caesars Entertainment is under construction at Fashion Square in Downtown Scottsdale.

Reimagined malls will be differentiated by a **distinct sense of place** through landscape design, water features, lighting, wayfaring signage, and adequate parking that does not separate active uses with massive parking lots as is typical with most malls. Visitors must perceive the location to be safe and secure, to be relatively hassle-free to access, and to offer value from an experience that cannot be duplicated online.

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Mixed-use environments can also include after-work recreational activities, **coworking space**, or **office space** for workers seeking ambiance, proximity to services and restaurants, and convenience to where they live.

Mall properties are logical candidates to serve as primary mixed-use nodes

E-commerce will increasingly serve the purpose of purchasing standard commodities that are not fun or convenient to buy in person. Retail agglomerations succeed when they contain a variety of proximate shopping opportunities whose synergy attracts customers. For most communities it is advantageous to have fewer but larger, well-integrated shopping nodes rather than smaller strip centers and free-standing buildings that siphon off relatively small sales dollars. The latter make it more difficult to develop and sustain larger projects or nodes with greater trade areas, more frequent, multipurpose visitation, and higher per-visit expenditures. Mall properties have a critical mass of land and excellent transportation access to consumer markets to be one of the fewer but larger mixed-use nodes while retaining a retail component.

Incentives are frequently needed to bridge feasibility gaps

Market research and financial feasibility studies should be conducted before any specific rezoning, changes in design parameters, or other land use regulations, capital budget authorizations, or public incentives such as Tax Increment Financing districts are established to implement business plans for the reimagination and reinvention of obsolete malls. Establishing TIF districts or offering other municipal incentives without first understanding the real estate economics and feasibility of adding the land uses or types of activities outlined above is often akin to the adage “if you build it, they will come”—which works better in film than reality.

Municipal incentives should be directed toward retaining and expanding uses, or attracting new businesses and land uses, that can reasonably be expected to expand the trade area from which customers are attracted and induce more frequent visitation from households and workers. In some cases, rather than accepting a standard redevelopment proposal that meets planning and other regulations, it may be more beneficial to encourage, through municipal incentives, enhanced design or added services or uses to facilitate the long-run competitiveness and tax-generating ability of the redevelopment of an obsolete mall.

An understanding of the common features and best practices of retail planning policies coupled with market research, feasibility assessments, and test marketing of potential opportunities can be used to select land use programs best suited for specific circumstances. The selected program should differentiate the reimagined and reinvented mall property from both competing on-the-ground and cyberspace alternatives.

*Aaron N. Gruen is a principal of **Gruen Gruen + Associates**, an urban economics, market research, and land use policy and real estate consulting firm.*

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