WHY MALL REUSE IS JUST BEGINNING
A current retail storyline is that the days of regional malls are numbered. The assumptions underlying this narrative are that all purchases are moving online, retailers are going bankrupt, and millennials have rejected the suburban mall and the lifestyle it represents. While there is some truth to each of these assumptions, statistics on malls tell a somewhat different story. Furthermore, when malls are reconsidered and repurposed for other uses, their value may far exceed their use as conventional retail space.

In traditional terms, the regional mall is defined as a complex containing a group of retailers with interconnected walkways, either interior or exterior, and parking for patrons. Malls began to compete with “Main Street” in the middle of the 20th century and grew in popularity as the population migrated from the cities to the suburbs. Through the decades, malls have faced both periods of enormous success as well as a variety of social and economic challenges.

Despite the growing number of stories that focus on malls’ demise, regional malls have had positive net absorption since 2010 (the only blip in absorption was in 2009 at the height of the recession). At the end of 2016, occupancy across the U.S. was 95%, equating to 848 million square feet of space. Store closures have increased, but for the most part, malls have rolled with the punches, finding new tenants or alternative uses.

When malls are reconsidered and repurposed for other uses, their value may far exceed their use as conventional retail space.
In 2016, Amazon’s sales in North America increased 25.2% over the previous year. In the same 12-month period, 53% of all growth in online sales came from Amazon. Based on numbers like these, it’s no wonder some predict all spending will eventually be through Amazon.

However, notwithstanding Amazon’s incredible success and the growing adoption of e-commerce among shoppers of all ages, most purchases are still made offline, and will be into the indefinite future.

According to the International Council of Shopping Centers, of the $4.7 trillion in retail spending in 2015, only 8.3% of that spending happened online. Breaking out the online portion, only 3.3% of spending was transacted with “pure-play” online retailers. These are retailers like Amazon that have little to no physical store presence. That means 96.7% of 2015’s retail spending happened in brick-and-mortar stores, or with e-commerce affiliated with brick-and-mortar stores.

Brick-and-mortar retailers have some advantages in their fight against pure-play e-commerce. Most notable is the physical store network. The consumer’s ability to interact with the physical store for browsing, purchasing or returning goods gives the retailer more opportunity to capture that consumer’s attention and, ultimately, their spending. Brick-and-mortar may not always compete as effectively on price, but it often can compete on convenience. For a regional mall that is near the consumer, e-commerce growth, in fact, may drive consumers into the mall to make a purchase.
The news is littered with reports of large retail stores closing locations or going bankrupt. And the reality is, the number of store closures is reaching a level unseen since the depths of the Great Recession in 2009. Since the beginning of 2017, major retail chains have announced plans to shutter over 3,500 stores nationally. This accounts for more than 62 million square feet, or 0.6% of all retail real estate across the country – a significant amount of space to go dark in the span of four months. Credit Suisse predicts that up to 8,600 brick-and-mortar stores will close their doors in 2017.

Store closures are by far the biggest contributor to increased vacancy. In first quarter 2017, Sears, J.C. Penney and Macy’s accounted for approximately 248 store closings nationwide. Averaging 130,000 square feet each, these dark boxes will add 32.4 million square feet of vacant space to the retail market in 2017. Because big box spaces are the most difficult to fill, most of these dark department stores will have to be subdivided or repurposed.

However, when comparing the volume of square footage resulting from store closures with overall net absorption, the picture is not entirely dismal. In 2016, the U.S. retail market experienced 105 million square feet of net absorption, representing a growth in occupancy of nearly 1%. In addition, mall productivity has remained steady and rose 0.7% in the last year to $465 per square foot, according to the International Council of Shopping Centers.

Are retailers everywhere really going out of business?

Because big box spaces are the most difficult to fill, most of these dark department stores will have to be subdivided or repurposed.
Do millennials really avoid malls?

Millennials are not attracted to malls the same way their parents and grandparents were in their prime shopping years. As a result, location will influence the ongoing or potential success for regional malls, with physical factors such as access, transportation and co-tenancy remaining important. However, amidst a moving and aging population, demographics will ultimately play the biggest role in the success — and even survival — of many regional malls.

### U.S. Regional Mall Demographics

<table>
<thead>
<tr>
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<th>Low Vacancy Mall (&lt;5%)</th>
<th>High Vacancy Mall (&gt;10%)</th>
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</thead>
<tbody>
<tr>
<td>Average Age</td>
<td>37</td>
<td>41</td>
</tr>
<tr>
<td>Median Household Income</td>
<td>$59,884</td>
<td>$51,498</td>
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<tr>
<td>Total Population</td>
<td>209,748</td>
<td>176,562</td>
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Today, malls with the highest levels of occupancy are in areas where the population is growing and, more specifically, the millennial population is growing. The millennial generation (those born roughly 1980-2000 and now in their late teens to mid-30s) is the group that is stepping up its spending. As they age, this is also the generation that will be increasingly settling down, buying homes, having children and doing activities that lead to the acquisition of goods. This trend will likely accelerate as millennials move toward peak earning years and begin to inherit some of the wealth accumulated by their baby boomer parents.

For all the attention on urban living, many millennials will follow a similar path as past generations and make the migration to suburban America. This migration will happen partly by choice, as not everyone favors the urban lifestyle, and also by necessity, as city life is exciting but often prohibitively expensive.

As millennial migration has reinvigorated many urban neighborhoods, that same energy will move to the suburbs, which are not stagnant, but rather constantly evolving places that will become denser, more diverse and offer more amenities over time. Many regional malls will adapt to the ongoing change in their trade areas. In fact, in a number of markets, this is already happening as owners get in front of the demographic shift.
LESS RETAIL, MORE IMAGINATION

While the future is not doom and gloom, the fact remains that there is too much retail space in the U.S. today. CoStar estimates that approximately 1 billion square feet of physical retail space, or 1% of the total retail space, will disappear within the next decade.

However, in this changing environment, the regional mall still has a role as community center and gathering spot in suburban America – a place to meet, shop, dine and be entertained. Because even with the urban rebirth happening in many cities, the fastest-growing areas across the country are largely suburban.

That said, the successful regional mall does look different and will continue to evolve. From a design perspective, it is less often an enclosed hallway and more frequently an open space that brings in natural light and has pedestrian walkways. More importantly, it also is not a place devoted solely to retail. Other types of real estate users are finding the advantages of regional malls too good to pass up – namely, they are located conveniently to consumers, have ample parking and often have large space blocks that are unavailable in other venues.

The regional mall is increasingly attracting office, medical and community users. Malls are also seeing their parking redeveloped into multifamily, office buildings and hotels, among other uses. Of course, the success of these projects depends greatly on the underlying demographic research and financial analysis that drives conversion to other uses. But one thing is certain: The regional mall, far from being extinct, is evolving into a new type of gathering place that meets the needs of its community.
A PLACE FOR LEARNING

HIGHLAND MALL
AUSTIN, TEXAS

- 575,000 square feet
- Built 1971
- Owned by Austin Community College

Austin’s first suburban regional mall, Highland Mall was in decline for decades with growing vacancy and increased blight. Market share had been gobbled up by newer malls farther out in the suburbs. As a result, the mall closed to make way for Austin Community College’s Highland Campus. ACC opened its first phase in 2014 featuring classrooms, labs, a library, media center, and an ACCelerator facility to aid technology education and foster in-demand job skills in the city’s vibrant tech economy. The community college was attracted to the central location with large open spaces to foster collaborative learning. A short walk from the Metrorail station, space not used by the college is expected to be developed as multifamily housing.

SIMON YOUTH ACADEMIES
LOCATIONS NATIONALLY

Simon Property Group formed a nonprofit that works with local school districts, providing funding and space within Simon malls to host 30 non-traditional high schools for at-risk students.

VIRGINIA TECH MATH EMPORIUM/
UNIVERSITY MALL
BLACKSBURG, VIRGINIA

A former 60,000-square-foot department store in this 174,000-square-foot mall owned by University Mall LLC is being used as a computer lab to teach Virginia Tech students.
GATEWAY TOWN CENTER
JACKSONVILLE, FLORIDA
- 607,340 square feet
- Built 1959
- Owned by Gator Investments

This struggling regional mall had a number of advantages to a potential medical user, including convenience to consumers and ample parking. The University of Florida saw the opportunity and, in 2011, dedicated the 100,000-square-foot Elizabeth G. Means Medical Pavilion. The mall will host an expanded portfolio of medical and community services that will be geared toward the historically underserved community.

ONE HUNDRED OAKS MEDICAL MALL
NASHVILLE, TENNESSEE
Vanderbilt University Medical Center occupies the entire second floor and roughly half of the square footage of this 850,000-square-foot property owned by LaSalle Investment Management.

FIESTA MALL/ THE CAMPUS
MESA, ARIZONA
Although some retail will remain in this 1.2 million-square-foot mall owned by Dimension Financial & Realty Investments Inc., the majority of space will be redeveloped for healthcare and educational use.
As more consumers are turning to e-commerce to fill their need for goods, more malls are focusing on what can’t be shipped by Amazon: services. Entertainment is an ideal way to draw customers into a center, and once they’re in, they are more likely to shop. In 2013, the Macy’s and Target-anchored Kingston Collection transformed itself from a regional mall on Boston’s South Shore into an entertainment destination with an indoor go-kart track, a bowling and entertainment center, an indoor playground, an expanded movie theater and an indoor trampoline park.

PLANTATION WALK
PLANTATION, FLORIDA
Encore Capital Management’s 32-acre, mixed-use redevelopment integrates entertainment and open space with office, retail and apartments.

DESTINY USA
SYRACUSE, NEW YORK
An entertainment venue and mall merged into one, this 2.6 million-square-foot asset owned by Pyramid Management Group includes an indoor amusement park, go-kart track and glow-in-the-dark mini golf.
RED BIRD/SOUTHWEST CENTER MALL
DALLAS, TEXAS
HBC Investments is demolishing this 782,000-square-foot mall to make way for office space, a tech incubator and a hotel.

WINDSOR PARK MALL/THE CASTLE
SAN ANTONIO, TEXAS
- 1.2 million square feet
- Built 1976
- Owned by Rackspace

After three decades as seldom-successful retail space and a temporary stint as a hurricane shelter, the Windsor Park Mall looked like another retail property heading for the end. Having sat vacant since 2005, the property was purchased by San Antonio-based Rackspace in 2007 for its new corporate headquarters. The cloud-hosting technology firm spent over $100 million in a series of renovations to create an exciting and environmentally friendly workplace known as “The Castle.” Rackspace occupies more than half of the former mall’s footprint with over 3,700 employees and will expand into more space as needed. The project has attracted new retail to the area as a result of the increase in daytime population.

CITYCENTRE
HOUSTON, TEXAS
Midway Companies replaced an aging regional mall near the vibrant Energy Corridor with CityCentre, 1.8 million square feet of mixed-use space, including 425,000 square feet of office.
SPRINGFIELD TOWN CENTER
SPRINGFIELD, VIRGINIA

- 1.4 million square feet
- Built 1973, renovated 2014
- Owned by Pennsylvania Real Estate Investment Trust (PREIT)

PREIT is reinvigorating this mall with $250 million in renovations and the addition of approximately 3 million square feet of commercial and residential space, utilizing surplus land on the property to develop new buildings for various uses. PREIT completed the first phase of its renovation in 2014, reworking the tenant mix and adding a health club, new movie theaters and a gourmet food court. The investment has led the mall to 100% occupancy, including anchors J.C. Penney, Macy's and Target. Two new office buildings totaling nearly 800,000 square feet will be part of a planned transit-oriented development to be constructed near a major intersection and within walking distance of the Franconia-Springfield METRO station. The project also will feature 1,400 new multifamily units.

THE HEIGHTS AT MONMOUTH/MONMOUTH MALL
EATONTOWN, NEW JERSEY

This 1.5 million-square-foot mall owned by Kushner Companies/Rouse Properties will be redeveloped to include residential units, plus outdoor space, dining and entertainment venues.

WESTFIELD PROMENADE
WOODLAND HILLS, CALIFORNIA

Westfield will transform this mall into a vibrant mixed-use development with 1,432 multifamily units, 244,000 square feet of retail, 629,000 square feet of office and two hotels.
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