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Keypoint Retail Newsletter: The mall: A continuing saga

May 28, 2021 - Retail



Burlington, MA Keypoint Partners LLC published the following in their Retail Newsletter from <https://keypointsretailnewsletter.blogspot.com/> :

The Mall: A Continuing Saga

Consider the enclosed mall. Even a casual observer could tell you that, arguably, no category of retail real estate has been the focus of such concern and conjecture or has undergone such upheaval – not just during the pandemic but for many years before.

If you follow these pages you'll know we've written about malls at least once a year. Back in 2009, in Remaking the Mall, we noted that "for all intents and purposes, traditional enclosed mall development is no longer feasible" and that malls were in "survival mode". One reason we cited for this was the fact that of 1,200 U.S. malls, 860 included a Sears, and "Sears future is tenuous." We all know how that went.

In 2014, in *Regional Malls: Days of Future Past*, we pointed out that while “high quality, aspirational, want-based” A-level malls seemed to be okay (if not even improving) “smaller, need-based B and C malls” would likely not survive “the next major-tenant-multiple-store-closing shoe to drop.”

In 2017, in *Shaping the Future of the Mall*, we looked with hope at major shifts in mall tenancy: with “less traditional tenants seeing the advantages of mall space – notably health services and entertainment venues– and major retailers who have had no or little mall presence looking at vacant mall anchor space. With the rise of non-traditional tenants such as health care, service providers, and others, many malls may not be down for the count.”

Following up on that theme in 2018, in *Mall Owners Fill Up on Entertainment*, after citing a forecast from Credit Suisse that 25% of all US malls could shutter by 2022, we noted that “The tenant category playing the largest role in the re-thinking of mall tenancy is Entertainment...if mall landlords and their leasing teams continue to be flexible and creative in their leasing, it may be that troubled malls can find revitalization through entertainment.”

In 2019, in *How Bad is the Mall Business These Days?*, we went back to the Credit Suisse prediction: “Many skeptics rejected the idea, saying that the dire calculation was way overblown; yet it’s starting to feel as if that forecast by Credit Suisse may not be so unreasonable”.

In February of 2020 in *Malls: Getting Near the Edge?* We noted: “Macy’s announced that it will close 125 stores over the next three years, approximately one 5th of its stores...Simon Property Group, along with Brookfield Property Partners and Authentic Brands Group, made a successful bid for distressed retailer Forever 21. In years past this might have been regarded as an opportunistic acquisition. It more closely resembles a desperate attempt to hold vacancy in check and avoiding occupancy fallout...As Macy’s goes through the process of closing stores, more malls will be affected by the decline in foot traffic, which will result in more mall shop closings...prominent malls throughout the U.S. will be impacted, including both Simon and Brookfield properties.”

Where does The Mall stand today? In an article posted this past February, Retail Dive observed that “the traditional concept of the mall is fading away,” and went on to enumerate 5 Creative Ways Malls Are Repurposing their Space,* remaking some or all mall space into:

Covid-19 Vaccination Clinics: “But it’s not just temporary clinics that are setting up in retail. Healthcare providers are looking to retail centers as plausible spaces for their services”.

Gamer Headquarters: “Need a new headquarters for your company? Why not buy an entire mall? That’s what happened when Epic Games, operator of the blockbuster game Fortnite, bought Cary Towne Center this in Cary, North Carolina, with the intention of converting the mall property to its campus by 2024”.

Churches: “Lakes Church in Lakeland, Florida, purchased an entire mall. The shopping center once contained Sam’s Club and Montgomery Ward, but now houses one of the campuses for the

congregation...with centralized locations and cost advantages, malls can be well suited as property for some congregations”.

Office Space: “Shopping centers have what office real estate craves: square footage and parking. Now, some companies are trying to take advantage of this sector of real estate to centralize. Google announced in 2019 that it agreed to lease Westside Pavilion shopping center in Los Angeles for its office campus, dubbed One Westside. The mall is expected to be fully converted by 2022”.

Warehouses: “As traffic continues to taper off at malls, some locations have transformed spaces into warehouses for retail fulfillment. Walmart is considering the adaptation of some of its store space into areas for fulfillment. Some companies are considering mall space as a means of corralling local fulfillment for e-commerce orders. Amazon is reportedly in talks with mall operators to turn department stores into fulfillment centers”.

Here in New England, a high school found itself in need of a quickly-converted temporary home, and found it in a vacant mall-based Macy’s space. High schoolers in downtown Burlington, Vermont attend classes in retrofitted spaces with “sparkly white tile floors, bright red carpeting, and Calvin Klein and Michael Kors signs and a large-scale Levi’s jeans photo on a classroom wall. The library is housed in the former Macy’s china department, with books displayed on under-lit shelves”.** Even closer to us, in Cambridge and Watertown, MA, two local malls are looking at very different futures. This summer, owner New England Development will begin converting large portions of the Cambridgeside Galleria mall into mixed-use space that will include office and laboratory space, and the entire third level of the mall will be converted into 162,000 square feet of office space. The Watertown Mall, currently anchored by Best Buy and Target, has been purchased by life sciences developer Alexandria Real Estate Equities, and while plans for the property have not been revealed, Alexandria has purchased other Watertown properties in conversion plays, and the town’s 2 million square feet of life science properties and proximity to Cambridge make it a not unlikely candidate for similar redevelopment.

Life science labs, Amazon fulfillment centers, high-tech office campuses, residential, churches, and high schools – they’re not just the future of malls. They’re the current moment.

*5 Creative Ways Malls Are Repurposing their Space, RetailDive.com, February 2021, Kaarin Vembar, Editor.

** Vermont Macy’s transforms into high school after toxic chemicals close down school building, March 31, 2021, Lisa Rathke, Associated Press