

Greyfields and Ghostboxes Evolving Real Estate Challenges

By Matt Kures*

Most retail industry analysts would agree that the United States is largely "over-retailed". That is, there is currently an over supply of retail space. According to one source, the amount of retail space per capita has increased 20 percent since 1970¹. The reasons for this overbuilding include the evolution of new retail formats, consumer preferences for new retail locations and attempts by national chains to gain greater market shares. As retail continues to evolve, less competitive retailers have been forced into bankruptcy or have downsized. Older retail space has become less attractive to retailers looking to develop a new image. As a result, there is a glut of vacant retail facing many communities. Increasingly, this retail space is found in "Greyfields" and "Ghostboxes."

Greyfields

The term Greyfield, has been coined to describe underperforming or declining shopping centers². While some analysts would only apply the term greyfield to larger regional malls, others have extended it to smaller shopping centers as well. These greyfield shopping centers are typically older and likely have a poor tenant mix or a high vacancy rate.

Many regional malls are still performing extremely well. A recent study by the Congress for the New Urbanism and PricewaterhouseCoopers found that 54.0% of all regional malls are classified as being healthy in terms of their sales per square foot. Nonetheless, others have experienced significant decline. The study indicated 7% of all existing regional malls as being greyfields, with the potential of another 12% moving toward greyfield status within the near future².

Northridge Mall in Brown Deer, Wisconsin is a classic example of a greyfield. As recently as 1990, Northridge had an assessed value of \$107 million. However, the mall was sold in 2001 for \$3.5 million and currently has one remaining retailer³. However, Greyfields are not limited to one specific area and present in most markets in the U.S.

While the reasons for a mall's decline vary, some common causes include:

- *Population Shifts and New Suburban/Exurban Development.* Many aging malls were built in older inner ring areas. As population moved away, retailers followed. Ironically, new retail is having the same impact on older malls that these malls had on downtowns 30 to 40 years ago.
- *Evolving retail formats* – Retail formats such as lifestyle centers and the increasing number of big-box retailers are seizing market share.
- *Consumer Preferences* – Traditionally, malls have been somewhat homogenous in their appearance and tenant mix⁴. Increasingly, shoppers want a sense of place that a conventional mall cannot offer.
- *Changing Demographics* – Trends such as the increasing number of two income households leaves less time for shopping at a mall and places a premium on convenience.
- *Failure to Reinvest* – the Urban Land Institute suggests that malls need to reinvent themselves every 5-10 years to remain competitive⁵. Older malls that have not experienced renewal through reinvestment may be less desirable to prospective tenants.

Ghostboxes

The past two decades have seen an increasing number of retailers building 20,000 to 200,000 sq ft. big-box buildings. Despite the growing number of large format establishments, the changing retail landscape has had its impact on these retailers as well. The result has been the emergence of Ghostboxes, or empty big-box buildings. The reasons for ghostboxes vary from poor economic performance to increasing space needs of an existing big-box retailer.



As with greyfields, many big-boxes locations have suffered poor economic performance. The result has been bankruptcy and downsizing. Nationwide, K-mart has closed over 600 locations within the last year (16 within Wisconsin). Other regional and national retailers such as Ames and Montgomery Wards have simply gone out of business.

In addition to big-box closings due to poor performance, others simply move to larger locations. With the growth of its Superstore concept, Wal-Mart is building new stores to accommodate their need for added grocery floor space. Once the new store is completed, the former location is abandoned leaving a 40,000 to 130,000 sq ft vacancy. Currently, Wal-Mart lists 303 vacant locations stores totaling 30.5 million square feet⁶.

Addressing Greyfields and Ghostboxes

Greyfields and ghostboxes have a number of indirect or direct potential impacts on communities. Visually, a greyfield or ghostbox may signal decay or promote a negative business climate. Communities with a greyfield or ghostbox may experience retail leakage to other communities or a loss of tax revenue. Furthermore, there may be additional businesses that depended on the big-box or center to draw traffic into their own businesses. With the closing of these locations, the dependent businesses may be in jeopardy as well.

In addressing greyfields and ghostboxes, a number of strategies have been developed by both public and private sectors. Some communities have found opportunities in these empty locations. Other communities have struggled in filling the space due to their size. A number of specific strategies are listed below.

Adaptive re-use of Empty Big-Boxes – Given their size, it is often difficult to find a single retailer to fill an empty big-box location. Accordingly, some communities are looking beyond retail at office, entertainment or light-industry uses for these buildings. The February 2001 issue of *Let's Talk Business* provides a number of adaptive re-use examples for vacant big-boxes.

De-Malling – Many older malls are being re-configured to look more like a traditional Main Street. Parts of these malls are being demolished and retro-fitted with streets in an open-air design. The storefronts are then reversed so that they face the street. Additional mixed uses, such as upper story housing or office space is then added to diversify the tenant mix. The result is a more pedestrian-friendly layout that creates a sense of place. Currently, Bayshore Mall in Glendale, WI is undergoing such a transformation. Parts of the former mall will be razed to

make room for sidewalks and a traditional street grid. The resulting design will connect the newly freestanding retail to the surrounding housing and office space⁷. The de-malling approach takes a deep financial commitment from a developer, but makes economic sense depending on the location.

Razing and Re-use – While many older shopping centers may have good locations, their current format many no longer make sense. Accordingly, many older shopping centers are being demolished to make room for new retail developments. The former Nakoma Plaza Shopping Center in Madison was razed to make room for a new Home Depot store along with other smaller tenants. While the site added a big-box store, the retail re-used an existing site and prevented new greenfield development at the urban edge.

Community Ordinances To Prevent Future Greyfields and Ghostboxes – An increasing number of communities are analyzing the potential impacts of large retail developments before they are built. Some communities are creating temporary development moratoriums to analyze big box development in terms of its design, size and impact on the community. The moratorium gives communities time to properly plan for a new development. Other communities are instituting retail size caps that ban freestanding stores over a pre-determined size. The National Trust's National Main Street Center has an informative publication that summarizes some of the size caps from around the country. Another unique approach to eliminating an empty big-box has been to create an ordinance that requires big-box developers to place money in an escrow account. The money is intended to cover the costs of building demolition should the location remain vacant more than a year.

Sources:

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*Kures is the GIS State Specialist with the University of Wisconsin-Extension, Center for Community Economic Development (CCED). New sletter production by Michelle Oddo-Marohn (CCED)

Center For Community Economic Development, University of Wisconsin-Extension
610 Langdon Street, Madison, WI 53703-1104

PH: (608)265-8136; FAX: (608)263-4999; TTY: (800)947-3529; HTTP://WWW.UWEX.EDU/CES/CCED
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