

Trends in Retail and Shopping Centers *Current Issues Facing Developers*

Over the past twenty years there have been significant changes in where America shops and how it is entertained. By the early 1980s, regional mall shopping had begun to lose market share to other retail forms. Changes continue today, requiring developers, retailers, and service providers to create new types of stores and shopping centers to stay competitive.

The following are some of the current trends in retail and shopping center development. These trends were discussed by a panel of industry experts at the Urban Land Institute's Fall Meeting (2002) in Las Vegas, Nevada.

Fewer General Merchandise Chains

Recent years have been difficult for retailers as the growth in retail space nationwide has outpaced demand. This "over-retailing" has resulted in consolidation of the industry with many chains shrinking or even going out of business.

Today there are only a few remaining general merchandise chains. Most of the traditional mall department stores are no longer full service as they have scaled back their merchandise to only apparel, cosmetics, shoes and some household items. The number of department stores selling appliances, furniture electronics, lawnmowers and other durable goods is limited. Further, mall department stores are representing a shrinking part of the retail industry having lost sales to mass merchandise and specialty retail stores. Nevertheless, mall department stores have opportunities as they often control excellent real estate in market areas with strong buying potential.

Wal-Mart Impacts Market

More than any other chain, Wal-Mart has had a huge impact on the retail industry. Their distribution network, use of technology and local store merchandising has allowed them to undersell the competition and increase their market share. Their buying power is illustrated in their ability to buy food (for their grocery department) at 5% less than their competition. As margins in the grocery business average only 1.5%, Wal-Mart has a huge advantage in this category.

Wal-Mart is expected to double their sales in five years. They continue to expand into new products and services (such as used cars and banking). However, they do not sell everything.

As a result, other retailers, such as big box "category killers" and service businesses can co-exist and be very successful next to a Wal-Mart.

One potential obstacle facing Wal-Mart is their ability to succeed in urban areas. Wal-Mart had developed in rural and suburban areas and has little presence in dense, urban areas. Although they are opening a store in Long Beach, CA (Target has already had urban store success), Wal-Mart's growth could be hindered as it faces higher wages, more competition and scarce land.

Malls Face Difficulty

Wal-Mart and other large stores are believed to have a major impact on shopping malls. Of the 45,800 centers in U.S., 1,100 are regional or super regional shopping malls. Approximately 7-12-percent of U.S. malls are considered economically obsolete. Many of these malls were created at a time when most households had only one income and there was more leisure time for shopping.

Many retailers have left the mall for open-air shopping centers. The cost of operating in a mall is more expensive as these facilities have common costs of heat, light and security. They are also more expensive to build (as a result, only a handful are currently under construction). Retailer margins are very slim and they have difficulty paying \$40/SF (requiring sales of \$400-\$500/SF). Accordingly, more department stores are going into open-air shopping centers. Some industry experts believe that Sears, once an anchor for most every successful mall, will one day be an "off-mall" retailer.



As a result, mall operators are looking for renewing their operations and making them more accessible to the street and the community. Services and mixed uses are becoming increasingly important to malls. Examples include a church as an anchor of a Colorado mall and the addition of residential units to the back lots of other malls.

Open Air Centers Growing

Very few malls are being constructed today. Instead, open-air centers are being built and are taking more retail dollars out of the mall. Two general categories of open-air centers are capturing these dollars: leisure time/lifestyle and convenience/value centers.

- Leisure time/lifestyle centers are replacing the mall experience by attempting to create a sense of community and positive, varied experiences. These niche centers are smaller and focus on food, entertainment, music, books, home goods, etc. Customers park outside of an attractive set of buildings and walk into a pedestrian friendly environment. These centers are successful in affluent markets and focus on “shopping,” not “buying.”
- Convenience/value retail strip centers are providing time-starved consumers with targeted shopping destinations. Consumers know what they need to buy, drive up, park in front of the store, make their purchases and leave. Consumers often return to their car simply to drive to the other side of the parking lot to shop at a different store.

These two concepts cover the majority of retail development today, although developers are trying to differentiate their centers in an attempt to build a “better mouse trap.”

Free-Standing Retail Growing

Fifteen years ago, 55% of retail stores were developed in shopping centers. Today, that percentage has dropped to approximately 20%. Accordingly, 80% of new retail developments are free-standing. These stores are often built next to or across the street from a Wal-Mart or other large store. Despite their proximity to other stores, there is usually no foot traffic. Developers of shopping centers are concerned with this trend as it erodes the market share of shopping centers.

Other Trends to Watch

Other retail and shopping center trends discussed by the panel include:

- *Struggles of the small grocer.* Shopping center operators will continue to find it very difficult to replace a small supermarket that has gone out of business (a trend resulting from new “superstore”

competition). An entire shopping center is often impacted by the loss a grocery anchor.

- *E-Tailing.* The panel believes that on-line retail purchases will not significantly erode shopping center sales. Industry experts see high transaction cost making E-tailing too expensive for most U.S. households. However, certain products like books and electronics will continue to sell well on-line.
- *Suburban Stores in the City.* As suburban markets become oversaturated with stores, retailers must expand into the inner cities to grow. Experts are looking at industry leaders like Target to see how big box and mass merchandise stores can operate in the city. For example, a new downtown department store is planned for Stamford, CT that includes small shops on the first floor, three levels of parking, and a two-level Target on top.
- *Super Corner Store.* New convenience store concepts might emerge that bring goods and services closer to neighborhoods. Some believe it might be an extension of the convenience store concept, bringing more grocery shopping, convenience retail, café dining and other services under one roof and closer to places where people work and live.
- *Farmers Markets and Arts Markets.* An increasing number of communities are developing facilities for locally-based retail. While not part of most shopping centers, consumers are increasingly interested in alternative, authentic and local products.

Implications for downtown

Changes occurring in retail and shopping center development provide useful trend information for downtown revitalization. While it is unrealistic to expect to attract mall department stores back downtown, current trends remind us of opportunities to highlight downtown’s unique advantages. For example, downtown’s sense of place and character can offer the leisure-time shopper an authentic alternative to the mall (and new open air shopping centers). Downtown’s population density should provide a compelling reason for a retail chain to consider in-fill locations. Finally, new, small scale retail concepts may be on the horizon that would be appropriate for the workers and residents of a downtown area.

Please see past editions of *Lets Talk Business* for additional perspectives and trends regarding retail and shopping center development.

Source: ULI Fall Meeting, Las Vegas, NV. Audio tape of session titled *Retail, Where America will Shop in the 21st Century*. Summarized by Bill Ryan, UWEX Center for Community Economic Development.

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