

The Reinvention of Shopping Centers

By Dennis L. Greenwald

From Village Green to Regional Shopping Mall.

Long ago in America we had something called the “village green.” The village green was the political, social, cultural and administrative center of the community. Fast forward 200 years or so and cases were working their way through the courts which debated the argument made by political and community activists that shopping centers were akin to the village green of the old days. The issue in those cases was whether, and if so where, individual citizens may petition; pass out pamphlets; seek contributions; engage in voter registration; and the like. Some courts upheld the rights of certain activists, likening shopping centers to village greens. In fact, the argument of activists was that there was no other place which better represented the center of where a community congregates than the shopping center. Shopping centers are undergoing such profound changes in the twenty-first century that they look even more like ultra-modern versions of the old village green.

From the original village green, we added a “main street” which functioned as the main shopping area. Department stores ultimately developed, which then moved to the new “malls” starting in the 1960’s. The first shopping malls were traditionally anchored by two or more large tenants, with in-line space devoted almost exclusively to the sale of clothing. Food courts weren’t even added to that standard format until larger malls developed. Shopping “centers” spawned variations such as mega malls, outlet malls and specialty malls. But the fundamental, if not sole, reason for the existence of all of these centers was one thing: shopping. Of course, some of these shopping centers added non-shopping facilities such as restaurants or bank branches on out-parcels. (An out-parcel being a separate parcel on the fringe of the shopping center which, although is not physically connected to the main shopping center structure, shares common access ways and parking.) Typically, the restaurants would be either fast food or family-style in-restaurant dining. Movie theaters were also added (because, among other reasons, theater patron parking needs would not usually conflict with prime-time shopping). But at its core, the traditional shopping mall was fundamentally designed for shopping, not unlike one incredibly gigantic department store.

A Funny Thing Happened On The Way To The Mall.

A funny thing did happen on the way to the mall. Both retailers and sociologists began to appreciate that shopping was actually a form of entertainment. This seemed to be true of patrons irrespective of geography, gender, age or socio-economic status. Shopping as a form of entertainment is easy to understand. It can be done alone or with others; it can be inexpensive or free; it is local and non-seasonal; it is available every day and almost every evening; parking is easy; and traditional forms of entertainment (such as movies and dining) are often available. So it’s not surprising that this form of real estate development has stayed consistently with Americans since the post-World War II housing boom. Those who have predicted the end of the shopping mall (most notably, during the 1990’s technology boom which predicted the end of the shopping mall) have consistently been wrong. Shopping centers will survive for the same reason

that movie theaters have survived the onslaught of video stores, pay-per-view movies, HBO, Showtime, Cinemax, etc. This is because shopping, like movies, remains a relatively inexpensive form of entertainment which gets people out of their houses and adds some excitement to their daily lives.

If people have been going to shopping malls for entertainment as well as material need, then more traditional forms of pure “entertainment” can’t be far behind. Indeed, once developers accepted the notion of shopping as one form of entertainment, then the lines between an entertainment center, a cultural center and a community center begin to blur. After all, if you build a venue for musical entertainment within a “shopping” center, then you are introducing a “cultural” element; and once you have that facility built, it can serve as a community center for such things as speaker programs, conventions and other community activities.

Reinvention/Evolution.

Although I speak of the “reinvention” of the shopping center, it is perhaps as much part of a continuing evolution. More than anything else, this evolution has been a function of geography. Since suburbia was the birthplace of the traditional shopping center, one can’t look at trends in “shopping centers” without viewing what’s happened in suburbia.

David Brooks, in his recent book *“On Paradise Drive,”* says that we are living in a time of “the great dispersal,” and he notes that our population is decentralizing faster than any other society in history. Although in 1950 only 23% of Americans lived in suburbia, the majority of Americans now do and “today’s suburbs are sprawling out faster and faster and farther and farther, so in the past few years, many exurban places have broken free from the gravitational pull of the cities and now float in a new space far beyond them.” People are not only moving out of cities, but they are moving farther and farther out into the “suburbs of suburbia.” Moreover, the geography of jobs has evolved dramatically. Traditionally, jobs were associated with the city, mostly downtown. However, 90% of office space built during the 1990’s was built in suburbia and suburbs account for more office space than in inner cities than every metropolitan area except for Chicago and New York. A natural byproduct of this demographic has been the movement to the suburbs of shopping, dining, theater and cultural and community venues. As Mr. Brooks comments: “[t]hat means we have a huge mass of people who not only don’t live in the cities, they don’t commute to the cities, go to the movies in the cities, eat in the cities, or have any significant contact with urban life. They are neither rural, nor urban, nor residents of a bedroom community. They are charting a new way of living.”

Moreover, the common stereotype of a suburb is incorrect. Although one associates suburbs with families with children, married couples with children actually comprise only 27% of the suburban population. More people living alone, than with families with children, live in the suburbs. Although suburbs have evolved over time, their basic structure is not likely to change. Why? Because, as Mr. Brooks notes, “suburbs reflect bourgeois values in real estate form . . . [and] establish a sense of respectability, financial security, and comfort. This split-leveled civilization would not have remained so coherent for so long if it didn’t solve certain human problems and appeal to the aspirations of many sorts of people who have moved to precisely these locales.” Certainly, “New Urbanism” is having its impact, as is the gentrification of a number of urban areas, but there seems no denying that suburban development shows no

immediate signs of slowing and every indication that decentralization of the population will continue. If decentralization continues and suburban areas survive as separate communities which are commercially independent from urban areas, then we can expect a variety of forms of entertainment and community venues which have been traditionally located in urban areas to continue to spring up in the suburbs. It is therefore reasonable to conclude that regional “shopping centers” will include many other forms of entertainment, commercial, cultural and community activity. Although a few so-called enclosed mega malls already exist (mostly in colder climates in the United States and Canada), the development of larger shopping, entertainment and community centers will likely continue nationwide.

New “Centers.”

New, huge “centers” are already replacing the traditional shopping mall in certain geographic areas. These centers comprise of an eclectic admixture of traditional shopping, as well as other forms of entertainment, but add the dimensions of cultural and community venues which, in many ways, are forming the next generation of the “village green.” The common thread through most of these centers will not necessarily solely be shopping, but will include various forms of entertainment and stimulation. The largest of these developments include cultural venues, such as theaters (or other areas) devoted to music and other live performances, venues for speaker programs and community events, senior centers, child care centers, IMAX movie theaters, bowling alleys, video arcades, fine dining and even hotels and sports venues. Because these new mega centers are integrating so many different forms of commercial and leisure activities, there will be significant new issues for developers, landlords and lawyers to resolve. Among the many issues to consider are the following.

1. Common Area Charges. Determining a tenant’s respective percentage share of common area charges in a typical office shopping center has generally been a relatively uncomplicated matter. The aggregate amount of leaseable space in the project is divided by a particular tenant’s leaseable square footage. To this is added some “load factor” to account for space in the project which is not leaseable, but needs to be accounted for (such as elevator shafts; mechanical closets; lobbies; etc.). In new centers, however, the amount of unleaseable space which landlords will want to include as part of the load factor will be a more complicated issue. This is because there will be greater diversity in the kinds of tenants and, therefore, far more amenities in newer centers than traditional centers.

The second part of the debate over common area charges will be over which charges should be fairly allocated to the various tenants. Again, in the more traditional shopping center there has generally relatively little to debate since all of the tenants have a common theme – namely, centralized shopping. But in new centers which will include significantly different uses with significantly different and idiosyncratic needs, common area charges may not look so “common” after all. For example, the security concerns for a music venue (which also serves as a venue for a speakers’ program) will have different security demands than the shopping portion of the center.

2. Damage and Destruction. Damage and destruction issues in traditional enclosed malls will look comparatively simple when compared to damage and destruction issues for new centers. As one example, because technology is such an important and integral part of shopping

and other forms of entertainment, computer outages can be akin to “damage.” As another example, even significant damage to one part of the center may have little (or no) affect on other parts of the center. Therefore, damage to the “common areas” will need to be revisited.

3. Liability/Insurance/Terrorism. The kinds of insurance required for clothing stores is different – or at least less expensive – than the liability coverage for a rock music concert or for a politically charged speaker program. So it won’t be surprising to see many traditional shopping center tenants (e.g., clothing stores) resist inclusion within their share of common area charges of insurance required to cover other kinds of activities. Moreover, as terrorism looms larger and larger, security and insurance concerns increase, particularly when shopping centers include community activities with larger and larger crowds.

Make no mistake about it, tenants are keenly sensitive to security and life-safety issues –in some instances even more so than landlords. An article in *The Wall Street Journal* this past Summer reports the results of a recent survey of certain developers, landlords and tenants who ranked the most important issues in attracting tenants. The result was a disconnect between landlords and tenants. Landlords and tenants were asked to rank four factors – technology, life-safety systems, high-end finishes and security. Landlords, at least in New York and New Jersey, ranked technology and high-end finishes as more important than life-safety systems. Tenants, however, deemed life-safety systems, followed by building security, as the two most important factors. So, as the *The Wall Street Journal* article put it, “before landlords put a waterfall in . . . they should be putting in extra security measures and upgrading life-safety systems and emergency lighting.”

4. Merchants’ Associations. Because tenants in a traditional shopping center have a tremendous commonality of needs and interests, merchants’ associations have generally not had to deal with a great diversity of conflicting demands among tenants. But in new, large mixed-use kinds of centers, there will inevitably be friction between the needs and desires of traditional shopping stores and tenants who don’t necessarily have shopping as their principal reason for existence. For example, debates among merchants may no longer be just about communal promotional issues, but will include hotly contested issues over whether a particular kind of band can play within the center; or a particular community event or speaker will be allowed.

5. Percentage Rent on Internet Sales. Because in-store shopping will blend with internet sales, there will be significant issues over where a sale took place. This is principally because many retail chains will offer in-store internet sales. Indeed, some stores are already including in-store computer kiosk areas where shoppers can find that sweater which is not in stock but can be ordered online at the store (or at home) and have it delivered to their local store.

6. Continuous Operation. Because new, larger centers will be more sprawling and diverse, a tenant’s obligation to remain continuously in operation will be revisited by landlords and tenants.

Old Malls.

There are a great number of regional and other shopping malls which, either by reason of demographics, geography or physical layout, are not suited to evolve into new centers. We have already seen this in the conversion of some older shopping malls into a handful of “big box tenants” or the outright closing of such malls. The older malls which cannot be converted to the new forms of centers may nevertheless continue to operate as more traditional shopping centers, but often with some novel uses included. These include conversion of such centers into true “community centers,” including senior centers; government (and other) office space; day care centers for children; churches; and even light industrial uses. These older shopping centers still generally provide more than ample parking and often have easy access (either by proximity to a highway, freeway or other main thoroughfare).

Changes in In-Store Dining.

In the early days of department stores, more formal tea rooms existed within the store, with an intent to encourage customers to spend more time within the four walls of a department store. These in-store dining areas were eventually replaced by mall food courts. Now, however, some large chains are reinventing in-store dining. Federated Department Stores has introduced Ben & Jerry’s, Auntie Anne’s, Starbucks and McDonald’s within some of their stores, allowing shoppers to get a quick bite while continuing to shopping. Macy’s reports that increased sales outweighs the risk of spills near merchandise. To maximize on this in-store dining phenomenon, food locations are geared to correspond to customer shopping. This means, for example, putting a Starbucks coffee bar within contemporary sportswear and a McDonald’s within the children’s department. (See the *The Wall Street Journal*, July 17, 2004 edition.)

The Effect of Technology and E-Tailing.

Even though the technology bubble has burst, online retail sales continue to grow. The United States Department of Commerce notes that 1.6% of the total retail sales is conducted in online sales (and most people buy things in the “bricks and mortar” world), and electronic commerce is still ascending. Moreover, that percentage includes only a portion of the retail industry, and excludes such things as travel services, financial services and other areas of commerce (such as online dating, gambling, tracing of ancestors and even pornography, assuming one can include pornography within “commerce”). But the issue of electronic retailing (or so-called “e-tailing”) is much more complex than simply how much, or what, is being sold online. Among other things, consumer behavior is changing by reason of the internet. The internet provides what has been called “price transparency” among competing products. In other words, consumers can go online and compare prices—and they can also compare options for the products and even compare quality—all before they even enter a bricks and mortar store. For example, the May 15, 2004, edition of *The Economist*, reported that one in five customers walking into a Sears department store to buy an electrical appliance have already researched their purchase online.

Web sites are also developing into a new generation which do more things to not only introduce their clients to the company’s brand, but to provide information on products which are not sold online. E-tailers are also savvy about the fact that their web sites must also serve to entertain the perspective customer.

What is also happening is that the internet, traditional shops and catalog shopping are blending into multi-channel selling methods. And, contrary to the profits of doom of the 1990's who predicted the demise of traditional shopping, shops are hardly closing their doors by virtue of the internet. In fact, many shops will become as much a showroom for products as a point of sale. For example, Apple and Sony stores have been developed with the intention that many patrons who will buy the product will actually buy the product online. So online and offline retailing are increasingly merging.

Some popular myths about the internet are also now beginning to explode. For example, there has been a perception that online retail sales rely heavily on gadgets purchased by young men. But people over 55 are spending more than any other age group, and during last year's holiday season the most popular category was clothing, up 40%, followed by toys, video games and consumer electronics.

It should also be noted that transaction costs for internet sales are lower which, of course, results in a savings to the customer. (Haven't we all seen promotions in which the price for an online sale is discounted by a certain percentage? Although shipping charges can change this formula (and the question of sales tax on internet sales is still open), there is no doubt that both the producer and the customer can save money by online sales.

Downtown Mega Centers.

We are now seeing the gentrification of certain downtown areas into an aggregation of sports complexes, shopping, pedestrian streets, dining and various other forms of entertainment. Downtown Los Angeles is essentially trying to create a "Times Square West" near the existing Staples Sports Center and Los Angeles Convention Center. Such massive redevelopments not only include retail stores (including some of the finer dining establishments), but residential and commercial space as well.

Conclusion.

Without a crystal ball, it's pretty difficult to come to any definitive conclusions about the reinvention/evolution of "shopping centers." Certain trends are clear, however. One is that there will be a continual blending of shopping with other forms of "entertainment"; a blending of internet shopping with traditional stores; increasing security concerns; and continued development of new, large centers which will serve as a focal point for not just shopping and traditional forms of entertainment, but cultural and community venues and sometimes sports complexes. New Urbanists have predicted the end of the shopping centers; planners have said that sprawling suburbia signaled the demise of shopping centers; and technology gurus said that technology heralded the end of shopping centers; but the public doesn't seem to have bought any of that. Basically, consumers still want to go to shopping centers, they just want more than shopping—then want an entertainment destination. Developers will give it to them.