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Department Stores Getting "Malled" By Stand-Alone Retail

A new trend in retail has snuck up on us. Actually, it is an old trend that is coming full circle. About 40 years ago, major department store owners figured out that if they built stores in the suburbs near where their customers lived, and built their stores within walking distance of other large stores, they could create a synergy that would attract shoppers. It was kind of like building a new town square in the suburbs. Thus the open-air shopping center was born.

In the 1960s, Seminary South Shopping Center was the area's first grand, open-air shopping



Karen Simon
Guest Columnist

center. The facility drew customers from throughout Tarrant County. In the 1970s, competitors took the concept a step further by building enclosed shopping centers. Customers apparently liked the idea of an assortment of stores under one roof and these shopping malls quickly became the retail destinations of choice. By 1990, the mall concept was so successful that Seminary South enclosed its buildings and re-opened as a mall.

A decade later, the trend is changing again. There are 1,200 enclosed retail malls in the United States and it's estimated that about a fourth are in trouble. Some malls are seeing massive vacancies; others are losing market share. Construction of new malls has slowed to a trickle. The International Association of Shopping Centers reports that nationwide, only three malls were built this year.

Meanwhile, back at the ranch, the Circle T Ranch in Westlake that is, Ross Perot Jr.'s Hillwood Development is planning to build a one million square foot, open-air shopping center. Why would he do that as opposed to a mall? Didn't he learn over the past 30 years that it is easier and more convenient to shop in an enclosed, out-of-the-elements shopping mall?

Well, as the segment of population with spendable income ages, it seems that the walk from the parking lot to the mall is getting longer, as are the strolls between stores. And there seems to be less patience for elevators and escalators and the navigation around the food courts, and there is a growing reluctance to share space with roving bands of teenagers.

Perhaps you can blame this new awareness on Wal-Mart. The father of the big-box, all-everything-store has made shopping more convenient and less expensive. As Wal-Marts, Targets, Lowe's and Home Depots proliferated and grew in size, they took a share of the market from nearby malls. Shoppers who know what they are looking for and where they can buy it, can park close and go in quickly.

Kohl's Department Stores saw this trend and has had some success with building free-standing facilities. Mall stalwarts such as Bloomingdale's, Sears, JCPenney and others are following the lead of Kohl's and are locating in open-air centers and stand-alone buildings. The strategy of these mavericks is to follow the money and locate near major grocery stores, big boxes and other stand alones... places that aren't in malls, but get a lot of shoppers.

These out-of-mall stores are generally smaller in size, faster to build and less expensive to maintain than their mall counterparts. In some instances, former mall occupants are taking over other facilities such as the 45 former K-Marts that Sears and JCPenney have purchased. The new stores also allow companies to experiment with new concepts. Sears is taking on Target and Wal-Mart with its Grand concept, one-stop shopping that combines every-day items with groceries. The concept started a year ago in Utah and is moving east with the Fort Worth-Dallas area in their general plans.

Malls, meanwhile, are taking a look at their strengths and weaknesses and coming up with a strategy to fight the shopping center and stand-alone trend. Malls tend to attract younger buyers than most owners and occupants want. To attract older shoppers, the industry knows that it needs to focus less

on sunglasses, record shops and teen-oriented clothing stores and more on clothes that fit mature shapes, professional services such as doctors and dentists, and personal services such as hair salons and day spas, and entertainment facilities such as comedy clubs and upscale restaurants.

The future of malls depends on their major anchor tenants, the department stores. Over the past decade, these mall mainstays have been trying to compete with big box stores on price. The theory being that if you can get shoppers into a store to buy something at a discount, they will buy other things at full price. Department stores are learning the hard way that the discount business doesn't work for them.

The latest trend is to get away from trying to provide all things to all people. Department stores are placing more emphasis on merchandising, in-store displays, specialization, and proprietary and private-label brands. With the exception of Sears, the department store industry is concentrating more on fashion and home décor than appliances, bicycles and furniture.

The trend toward stand alones and shopping centers is good news for us in the commercial real estate business. It provides opportunities to move more land and to rejuvenate older shopping centers. But no one wants to see our malls half full or abandoned.

Because the real estate end of retail seems to be returning to the 1960s, perhaps mall merchandising should do the same. I know some college kids who would love to get their hands on Nehru jackets, bell-bottom pants and platform shoes. Hopefully, malls can work out their problems and all facets of retail can co-exist.

Karen Simon is Senior Vice President and Managing Director for the Fort Worth office of Bradford Companies