

DEFINING TRENDS in shopping center history

A MEMBER PERSPECTIVE

by Michael Tubridy

With its 50th anniversary looming in 2007, ICSC decided to launch a series of articles on the history of the industry. The following overview is the first in the series.

Who better, we reasoned, to judge which key developments had a lasting impact on the industry than those people at the forefront of change? Accordingly, we surveyed ICSC members to assess the broad range of global developments covering finance, design, leasing, legal and organizational, retail landscape, and consumer and demographic areas.

Though certain events in the survey were offered as emblematic, the emphasis in the questions was on the trend over approximately the last half-century rather than the moment. Moreover, this time frame meant the exclusion of pioneering developments central to the eventual success of the industry, including (but not limited to) Country Club Plaza, which opened in Kansas City, Mo., in 1922, and Highland Park Village in Dallas, Texas, which celebrates its 75th anniversary this year.

A total of 732 responses were received: 59% from owner-developers, 11% from retailers, 3% from lending institutions and 27% from other associate members in professions allied to the industry. The top 10 trends as shown in **Table 1** are discussed in order of membership survey ranking.

TREND 1:

Rise of real estate investment trusts (REITs)

For years, shopping center ownership had been, to an overwhelming degree, family-run and privately based, with only a few companies (notably Federal Realty Investment Trust, New Plan Realty and The Rouse Company) venturing into the public market.

Milton Cooper's decision to take Kimco Realty Corp. public in 1991 led to a seismic change in the industry, transforming investors' sometimes negative image of REITs and pointing other shopping center owners decisively toward a major source of new capital. Within a few years, other major development companies, such as Melvin Simon & Associates and The Taubman Co., had followed suit.

Access to this capital gave adrenalin to an industry still suffering the aftereffects of the credit crunch of the late 1980s and early 1990s. A number of observers credit the public-company corporate structure of the 1990s with disciplining an industry that had overbuilt in the 1970s and 1980s. Wall Street analysts also subjected owners to a greater level of public scrutiny than had previously existed in the industry, increasing the importance of persuading a sector with limited prior exposure to the shopping center industry. Moreover, REITs are becoming an international presence in Europe and Asia, not unlike other elements of the American economy. For instance, Australia, Belgium, France, Turkey, and the Netherlands have traditional REIT structures in place; Austria, Italy, Luxembourg, Spain, Greece, and Germany have REIT-like structures, and legislation for formal REITs is being considered in the United Kingdom and Germany as well.¹

TABLE 1

RANKING	TREND
1	Rise of real estate investment trusts (REITs)
2	The enclosed mall comes into its own
3	Greater access to consumer credit
4	Online retail
5	Lifestyle centers
6	Institutional investors enter the shopping center industry
7	Suburban highway intersections as preferred locations
8	Discount department stores
9	Power centers
10	Convenience as a driver of customer traffic

TREND 2:

The enclosed mall comes into its own

Malls have never comprised more than 5% of the total number of shopping centers. But their size has assured that they occupy an outsized place in the popular imagination as the symbol of the industry, including in films such as *“Fast Times at Ridgemont High”* and *“Scenes From a Mall”*. In the early 1950s, several shopping centers represented major advances on the open-air, grocery-anchored design mode available to that point, all of them paving the way for the regional mall: Northgate in Seattle, Wash., in 1950 (featuring a full-line department store and a central pedestrian walkway or “mall”), Shoppers World in Framingham, Mass. in 1951 (introducing the two-level center), and, in 1954, Northland Center in Detroit, Mich. (containing a “cluster layout” with a single department store at the center and a ring of stores around it). In 1956, six regional centers opened, cementing the popularity of the new format. One of them, Southdale Center in Edina, Minn., consolidated all the gains of its predecessors, and added another crucial wrinkle: two competitive department stores as anchors.

By enclosing the center with a roof, Austrian-born architect Victor Gruen – who fled from the Nazis in 1938 – provided for shelter against the elements in frigid climates. His design also permitted the creation of an elaborate interior meant to recreate the feeling of “the ancient Greek Agora, the Medieval Market Place and our own Town Squares,” according to Gruen. (Another innovation was art commissioned especially for the center.) But he came up with an equally ingenious design solution that solved a thorny leasing problem: putting department store rivals Dayton’s and Donaldson’s at opposite ends of a central corridor, with neither gaining an advantage over the other.

An immediate success, Southdale spawned a gaggle of gawkers (people came by, even when it was closed, just to stare at it) and imitators. By the early 1960s, open-air centers were adding roofs (a trend that would continue for over a decade) and new centers were looking to this new prototype: enclosed, climate-controlled, two-level, with multiple anchors. The proliferation of malls was also rife with irony for Gruen, a socialist who built one of the great 20th-century centerpieces of capitalism and a lover of cities who came to

lament that the best retail locations were now near highways removed from vital city downtowns. (He even wrote an article titled “Retailing and the Automobile: A Romance Based Upon A Case of Mistaken Identity”.)

Yet, it might be argued that the current kinds of large-scale retail developments – mixes not only of shopping complexes, but also of offices, hotels, residential housing and entertainment – might at long last fulfill Gruen’s original vision.²

TREND 3:

Greater access to consumer credit

In the 1950s and 1960s, average Americans gained easier access to buying on credit through credit cards and other financing mechanisms. In the first half of the 20th century, retailers had allowed customers to open up charge accounts; but to do a day’s worth of shopping, customers needed to bring along multiple cards.

Frank X. McNamara of Hamilton Credit Corp. came up with the idea of a credit card that could be used for this more intensive shopping. In 1950, he, along with his attorney Ralph Sneider and friend Alfred Bloomingdale (grandson of the department store founder), introduced the Diners Club credit card. (The name was designed to appeal to the new financing vehicle’s initial primary target – salesmen who frequently dined out.) By the end of that year, 20,000 people were using the card. Eight years later, both the American Express card and the Bank Americard (later christened Visa) came on the scene, providing the Diners Club card with competition. Although a long time coming, the pendulum was swinging away from retail credit cards and toward those offered by the third-party firms.

In 1970, only 16% of respondents to the *Survey of Consumer Finances* conducted by the Federal Reserve reported using bank-issued cards versus 45% who used one issued by a retail store. By 2001, 72% of respondents were using bank cards, while only 45.2% used retail store cards. The credit card had become ubiquitous, being used not only at the department store but also even, increasingly, at the supermarket. In 1970, just over half of respondents to the survey (51%) said they used at least one type of credit card. By 2001, more than three-quarters of families (76.2%) pos-

sessed a card. Their ease of use encouraged consumers to spend, which they did – increasing retail sales and, consequently, retail real estate.³

TREND 4: **Online retail**

For shopping center industry professionals, the headline on the cover of *Time's* July 20, 1998, issue could not be more frightening: “Kiss Your Mall Goodbye”. Inside it was a little better: “Click Till You Drop”. The rise of the Internet, the cover story claimed, would put many brick-and-mortar retailers and large portions of retail real estate out of business as consumers discovered how much “Faster, Cheaper and Better” online shopping was. Even Massachusetts Institute of Technology economist Lester Thurow would soon claim that half of the retail outlets in the United States would be gone in 10 years. Though the tone of other media stories of the time on this new form of retailing wasn't quite so sensationalistic, the message was similar: the shopping center industry better watch out.

The reality turned out to be considerably more complex. After initial trepidation, brick-and-mortar retailers began to dip their toes into the new medium, discovering they had significant advantages over so-called “pure-play” Internet retailers, including brand-name recognition, distribution facilities and the ability to accept returns at stores. Moreover, shoppers were using the Internet to research product information before shopping at stores. Soon, most major retailers had their own Web sites, and even many formerly pure-play retailers had established a brick-and-mortar presence. The result was a “multi-channel” environment in which retailers used several simultaneous means (stores, Web and catalog) to promote and sell their merchandise.

Competition from the Internet prompted shopping center owners to create Web sites of their own, most with maps and directions to the center, tenant lists, calendars of events, leasing information, special sales, gift cards and value-added services such as free shopping bags, gift wrapping, coat checking, and the like. The combined efforts of owners and retailers empowered consumers with more information.⁴

TREND 5: **Lifestyle centers**

Dan Poag (formerly a successful open-air center developer), dissatisfied with his experiences shopping at malls, thought that others might feel the same way. He persuaded then-partner Sandy Thomason and Terry McEwen, who had experience in leasing, to join in an effort to “create a shopping environment where a customer could find better-quality retail and restaurants in an inviting atmosphere with convenient parking and access,” recalled McEwen nearly two decades later.

The partners' unorthodox vision for the project – an anchor-less specialty center with higher-quality design and more extensive landscaping than the normal open-air center – was not shared by many lenders. But the developers persisted and, in 1987, opened Saddle Creek outside Memphis, Tenn., giving impetus to a new concept that took off in earnest in the latter part of the 1990s.

The format caught on not only with older baby boomers nostalgically yearning for the pedestrian-friendly downtowns of their youth, but also with retailers, who saw an opportunity to achieve sales per square foot similar to regional malls but with lower expenses. By 2006, more than 140 lifestyle centers had opened, according to an ICSC count. So much buzz had accrued to the concept that some developers even claimed that the term was now being used too loosely.⁵



TREND 6:

Institutional investors enter the shopping center industry.

Institutional investors – banks, insurance companies, pension funds and realty trusts – had a stake in the shopping center industry from the beginning, as developers took out short-term construction loans from banks as well as long-term commercial loans once the project was built. Many investors continued to manage funds rather than properties, but the involvement of these institutions deepened when they needed to foreclose delinquent loans. For instance, Equitable Life Assurance Society began by investing \$1.2 million in a Baltimore center in 1946. Five years later, it saw its stake in the industry leap when, after having placed a loan to cover project construction costs, it was forced to assume ownership of Shoppers World in Framingham, MA, when the developer defaulted.

Major institutional investors such as Connecticut General (later Cigna), Equitable, Prudential, and Teachers Insurance and Annuity Association (TIAA) saw that percentage rent and escalation clauses were a useful hedge against inflation. These financial clauses were especially important during the runaway inflation of the 1970s as rising center rent rolls gave retail real estate an advantage over fixed rental rates at office and apartment buildings. In that same decade, lenders, concluding that equity provided comparable risks but greater potential returns than loans, assumed ownership stakes of up to 50 percent in many properties – an important milestone in the industry's switch from entrepreneurial development to institutional ownership. Though some institutional owners chose to manage properties directly, others turned to the original developers or to third parties for expertise.

From its inception, institutional involvement in shopping centers influenced tenant mix, especially through underwriting requirements that called for triple-A tenants. But institutional ownership also brought to the forefront the importance of coordination and communication among lenders, developers, managers and retailers.⁶

TREND 7:

Suburban highway intersections as preferred locations

Though it is a myth to think that retailers left American downtowns only after World War II (explosions in population and the number of automobiles had pushed many to city peripheries even by the Roaring '20s), the suburbanization of America certainly picked up steam in the postwar period. Consumer energies pent up by the war, along with governmental policies favorable to home buying and the Interstate Highway Act of 1956, combined to increase the exodus from cities. From 1950 to 1954, suburbs grew seven times faster than central cities.

Retailers and developers, seeking to stay closer to their customers, followed suit. By 1954, even before Southdale had opened, suburban shopping centers had already overtaken urban downtowns in total retail sales. In this, they were helped immeasurably by the explosion in improved suburban limited-access highways and local roads undertaken by federal, state and local governments. For retailers accustomed to ready-made city locations such as railroad or subway stops, the new suburban infrastructure provided a logical geographical focus. One example of the retail real estate synergy created by this was in Paramus, N.J., where two regional malls – Garden State Plaza and Bergen Mall – opened in 1957, only seven-eighths of a mile apart on busy Route 4.⁷

TREND 8:

Discount department stores

Remarkably, the three giants that dominated the discount department store industry at the end of the century – Wal-Mart, Kmart and Target – all opened within four months of each other in 1962. In March of that year, S.S. Kresge Co. opened the first Kmart store in Garden City, a suburb just outside Detroit, Mich. Seventeen other Kmart stores would open in the same year. In May, the department store company Dayton's entered the field by establishing a Target store in Roseville, Minn. The largest of all followed two months later, as Sam Walton, a franchisee of Ben Franklin 5 and 10 stores who became disgruntled with management's deaf ear to his ideas on discount pricing, started the first Wal-Mart in Rogers, Ark.

The new discounters took the chain discounting format perfected by Woolworth's and married it to the large floor plans used in regional malls, giving rise to the term "big box." The success of the Big Three of discounting resulted in the demise of smaller regional discounters that failed to keep pace technologically, such as Bradlees, Caldor and Jamesway. Wal-Mart, Kmart and Target also paved the way for other discounters that specialized in particular product lines – the so-called "category killers" such as Home Depot, Lowe's, Staples and Toys 'R' Us.

The most important effect of the discounters might have been that they sliced into the market share of department stores, long the anchors of regional malls. By 2000, the discounters – which had been in either large freestanding units or in community or power centers – were now popping up in malls as replacements for department stores.⁸

TREND 9: **Power centers**

The open-air center – now featuring big-box retailers – marked a major advance with Terranomics Corp.'s construction of 280 Metro Center in Colma, Calif., in 1986. More than 70% of the center was leased to category killers or "power retailers," giving rise to the term soon adopted for the new format. Moreover, for the first time since the 1950s, an open-air center possessed regional draw, with a primary trade area extending up to 10 miles, which was beyond that attained by supermarkets.

Terranomics' triumph was doubly sweet for founder Merritt Sher. He not only overcame a location near a cemetery (giving rise to jokes such as "Shop till you drop" and "Shop a lot,

buy a plot"), but also the misgivings of some municipal planning officials and the financial community, who preferred the tried-and-true formula of regional malls.

Throughout the rest of the 1980s and 1990s, the new center type hastened a realignment in mall tenant mix, with hard goods departing from department stores even as category killers such as Best Buy and Toys 'R' Us anchored power center projects. Yet, power centers did not displace malls; in fact, their proximity to the older format created "corridors of power" in which consumers could move quickly back and forth from one to another.⁹

TREND 10: **Convenience as a driver of customer traffic**

From its formative period in the postwar era, the shopping center industry has aimed at convenience. The two-level mall, for instance, was created as a means of decreasing the distances that consumers needed to walk in these new sprawling complexes. But over the last two decades, convenience has become even more consciously figured into centers – not merely in design, but also in stores' merchandise mix and customer service.

Much of this added emphasis has come as a result of the need to appeal to time-pressed, double-income couples and/or those with children. Much of the original appeal of power and lifestyle centers derived from locating parking spaces as close to destination stores and restaurants as possible, so that shoppers would not have to spend a long time walking through malls. Malls themselves have adapted to this by offering clusters of similar retailers in specific merchandise zones that are geared toward different groups, such as teens,



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young children and upscale shoppers, as well as through such conveniences as concierge services, stroller rentals, “stork parking” for expectant mothers, child care services, gift wrapping, gift cards and vending machines. In some ways, the growing presence of educational facilities, post offices, health and fitness centers, and other kinds of personal and business services in malls (particularly smaller regional malls) merely recognizes the fact that the growth in consumer spending on services has outstripped that for goods over the last decade.

Retailers also have taken up convenience as a rallying cry, perhaps partly as a means of maintaining market share against new competition. Faced with the onslaught of discount department stores out to cut into food and pharmacy sales, supermarkets and drugstores have enhanced one-stop shopping by carrying more merchandise lines.¹⁰

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FOOTNOTES:

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