



# The Future of the Shopping Center Industry

Report from the ICSC Board of Trustees





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## Introduction

The retail real estate industry is undergoing one of the most profound transformations in its history. The rapid advance of technology and the growing influence of the millennial generation, among other trends, have created both new challenges and opportunities for shopping center owners.

In light of this, how will the modern shopping center be different five years from now, and how can organizations position themselves for success in what is likely to be a radically different business environment?

Over the past year, the **International Council of Shopping Centers (ICSC)** and its global Board of Trustees embarked on a project, titled Envision 2020, aimed at identifying a way forward for the industry by shining a light on the best practices and themes shaping retail real estate. Those findings, referred to as “bold statements,” are chronicled in this report.

In the following pages, you will find an overview of eight game-changing concepts identified by the Board of Trustees after extensive internal debate and input from multiple stakeholders. Also presented here are a number of case studies of projects and company-level initiatives that embody one or more of these concepts, which are largely interrelated. In addition, the report features commentary from many thought-leaders, including in-depth interviews with the top executives at some of the largest and most-respected shopping center companies.

**Michael P. Kercheval**, ICSC President & CEO

**Stephen Lebovitz**, 2015 – 2016 ICSC Chairman

## Bold Statement No. 1: Bricks-and-Mortar and Online Retail

According to the findings of the Envision 2020 project, shopping centers are on their way to becoming true e-commerce participants, through increasingly sophisticated websites, onsite digital interfaces with consumers, and mobile communications to shoppers within the mall and beyond its boundaries.

Conversely, e-commerce retailers – from **Bonobos** to the mighty **Amazon.com** with its new pop-up stores – are rolling out brick-and-mortar stores in an effort to solidify their brands and curate their product assortments. As we look to the future, a hybrid form of commerce is emerging, one in which shoppers move seamlessly between the physical and digital worlds of retailing as they research products and make purchases.

According to the **Fung Business Intelligence Centre**, “showrooming” – the practice of researching a product in the store but buying it online – gets plenty of attention, but recent studies suggest it is far less common than “webrooming,” which entails researching a product online and then purchasing it in a store. In fact, 90 percent of all U.S. retail sales still occur “within the four walls of a physical store,” according to a report by management consulting firm A.T. Kearney.



**“It seems as if every day there is an e-tailer announcing it is opening physical stores. At the same time, our retailers are investing in technology to deliver a platform that meets their customers’ needs.”**

**Stephen Lebovitz**, president and chief executive officer of CBL & Associates Properties, Inc. (He is also the 2015 – 2016 chairman of ICSC)

### *The Promise of Technology*

In 2012, **Westfield** created Westfield Labs – an entity dedicated to digital innovation. Over the last several years, Westfield Labs has piloted a number of programs aimed at making it easier to shop and dine at the company’s centers, thus increasing foot traffic.

Among other initiatives, Westfield Labs has rolled out ticketless, smartphone-enabled parking at Westfield London and food-ordering apps for Westfield San Francisco Centre and Westfield Sydney. Its Westfield app product-search feature allows consumers to search for specific items, view product information and pricing, find out which tenants at their preferred Westfield center carry the items and “click to call” the stores. Westfield is capitalizing on the fact that 50 percent of all retail purchases are influenced by information consumers find online, according to the company.

In China, the **Dalian Wanda Group Co. Ltd.**, a commercial property, hotel and film conglomerate, has formed an e-commerce joint venture with Tencent Holdings, a social media giant, and Baidu Inc., the country's dominant search engine. The trio has ambitious plans to create the world's leading online-to-offline e-commerce platform, whereby consumers use their smartphones to find and purchase goods and services, often from nearby stores. Wanda plans to promote its portfolio of more than 100 malls to the hundreds of millions of users of online chat, search and payment services developed by Baidu and Tencent, according to *Forbes* magazine.

Meanwhile, **Unibail-Rodamco**, Europe's largest listed commercial property company, has established an innovation incubator, UR Lab, that is working with internal and external stakeholders, including retailers, to monitor trends, test concepts and implement the strongest ideas at the company's shopping centers. According to the company, UR Lab is "reinventing the retail experience" by "using technology to bring the physical and digital worlds closer together," among other initiatives. Since its founding in 2012, UR Lab has rolled out new retail concepts and digital tools, such as Meet My Friends, an "indoor geosocial networking" service accessed via the mobile apps of Unibail-Rodamco's shopping centers.





**Q&A with  
Steven Lowy**  
Co-Chief Executive Officer  
Westfield Corp.

This year, Westfield was named one of the 50 most-innovative firms in the world by *Fast Company* magazine, along with the likes of Google and Apple.

***With the creation of Westfield Labs and other initiatives, you seem to be developing a new model for Westfield. Can you discuss your vision for the company?***

**Lowy:** You are seeing a very serious trend of the convergence of physical and digital retailing, with consumers searching online and buying offline; searching offline and possibly buying online; or buying online and then picking up in the store. There is a crossing of paths between the physical and digital. At the end of the day, you are selling consumers something in the most convenient and cost-effective way. Historically the business model for the shopping center industry has been to connect consumers and retailers physically. It was the retailers' job to convince consumers to buy something. That model is shifting as a result of technology. The real estate owner now has a large part to play in connecting the retailer and consumer both physically and digitally, and to do that you need a direct relationship with the consumer.

***How might the shopping center lease model change as a result of the reframed relationship between landlords and retailers?***

**Lowy:** The provision of the real estate itself will only be one part of the overall service that real estate providers will be able to offer to retailers. That will require leadership on behalf of leading retailers and real estate providers. Both are starting to invest heavily in technology, and for that technology to work together, commercial arrangements will need to be put in place.

***What can you tell us about your vision for Bespoke, the new 37,000-square-foot event and technology-demo space at Westfield San Francisco Centre? It is unlike anything the industry has seen before. To what extent is it a consumer attraction? What role does it play for Westfield?***

**Lowy:** It is a hub for innovation, a physical place to connect retailers and technology providers in a real-world environment. It is a unique repurposing of real estate. It is an opportunity to fast track the embracing of technology by the retail community to better serve the consumer.

***Like some other large mall owners, Westfield is offering same-day delivery service from various properties. Do you see malls evolving into flexible formats where they function partly as distribution centers for retailers?***

**Lowy:** I have no doubt that will happen. The technology is all being tested. This is about connecting the stock in the stores to the consumer and getting it to their home or office, or making it easier for them to come pick it up.

## **Bold Statement No. 2: Intimacy with the Consumer**

**According to the Envision 2020 project, developers and retailers will leverage technology to embrace the human experience through an enhancement of customer outreach both inside and outside of the retail environment.**

### ***The Disruptors***

According to the Fung Business Intelligence Centre, there are a handful of emerging technologies that have the potential to disrupt the retail sector. Not surprisingly, they include mobile apps. More than a billion smartphones are sold each year and app developers are creating products for “every imaginable use,” including anytime/anywhere shopping, according to a Fung report. “Tiny sensors in smartphones gather data about the physical world, including location and movement, allowing for the development of applications for in-store promotions and back-room efficiency,” states the report.

The advent of beacons also has big implications, according to the report. These compact, inexpensive Bluetooth transponders “can be installed throughout stores and other spaces to provide continuous connectivity with consumers, track activity on the shopping floor and transmit data to consumers and associates,” states the Fung report.



*Arabian Centres, Mall of Arabia/Jeddah, Saudi Arabia*

## ***Beacons in the Common Area***

Shopping center owners, like many of their larger tenants, have embraced mobile apps, beacons and the like. In some cases, they are making these platforms available to their tenants. **Simon**, for instance, has outfitted its malls with beacons that send offers and information to shoppers' smartphones as they stroll through a property. The company is also rolling out digital directories and concierge services that help mall visitors find their way around properties, locate deals and get information about events.

Indeed, new technology is empowering shopping center owners and retailers like never before.

In Saudi Arabia, **Arabian Centres Company Ltd.** has begun using mobile-phone tracking technology to get a better understanding of the traffic patterns within its malls and spot opportunities to improve its properties in terms of merchandising, revenue and amenities.



**“We can track clients to see where they go and identify hot and cold spots within the malls.”**

**Simon Wilcock**, chief executive officer of Arabian Centres Company Ltd.

Through its mobile apps and associated tracking mechanisms, Arabian Centres is able to gather general demographic information about shoppers and send tailored offers to their smartphones even before they arrive at the mall, explained Wilcock. The company is capitalizing on the fact that smartphone penetration in Saudi Arabia is high (about 75 percent), according to Wilcock. “Our digital initiatives have helped us to determine whether we are delivering something shoppers want,” he said. “You can only build community if you are delivering something that local consumers want.”

Back in the United States, **Kimco Realty Corp.**, the largest U.S. owner of open-air centers, is using its West Coast flagship property, Westlake Shopping Center, in Daly City, Calif., to pilot various technologies. Among other initiatives, Kimco is using an analytics program at the open-air center to gain insight into cross-shopping patterns and other issues.

## ***Social Media Insights***

For some developers, social media has become more than just a marketing tool. As it was making design and leasing decisions for Avalon, a \$600 million, mixed-use project in Alpharetta, Ga., **North American Properties** undertook a “design-discovery tour” of different types of properties and documented its journey on Facebook and other social media sites. The company asked the public for feedback on various design ideas and retail concepts.



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**“We really listened to the community and wanted to make sure that what we were creating [at Avalon] would resonate with the market.”**

**Liz Gillespie**, vice president of marketing of North American Properties

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As they vie for the attention of time-starved, tech-savvy consumers, shopping centers are coming to look, feel and function differently than the retail fortresses of yesteryear. From a leasing standpoint, many landlords are keen to add so-called experiential retailers and restaurants, including popular local and regional concepts that appeal to millennials. Hotels, health clubs and other non-traditional tenants are becoming more prevalent, as are thoughtfully designed public spaces for recreation and entertainment.



*North American Properties, Avalon, Alpharetta, Ga.*

## Case Study: Kimco Realty Corp.

**Kimco Realty Corp. has given Westlake Shopping Center, its West Coast flagship property, a high-tech makeover designed to engage customers, increase sales and generate analytic insights that inform decisions about the property.**

Last year, Kimco installed Wi-Fi at the open-air center in Daly City, Calif., in an effort to determine whether the complimentary service would increase the amount of time visitors spend onsite, ultimately driving higher sales per customer. The Wi-Fi network was also intended to serve as a platform for adding other services to the center.



*Kimco, Westlake Shopping Center, Daly City, Calif.*

What Kimco has learned is that visitors who log in tend to spend twice as long at the property as those who don't. Tenants are also using the network as a tool to drive more foot traffic to their stores. Retailers display information about their offerings and specials, as well as links to their websites, on the network's mobile web portal. After installing Wi-Fi last year, Kimco added computer-vision sensor technology that allows it to count the number of vehicles and pedestrians throughout the site as well as determine directionality, utilization of space within the center and the general flow of pedestrians from different points.

"A lot of this type of data was inferred in the past," explained David Jamieson, Kimco's executive vice president of asset management and operations.

Kimco will continue to add technology to the center to better serve both shoppers and tenants. It plans, for example, to add geo-fencing technology that would allow tenants to transmit offers and information to shoppers via their smartphones as they stroll through the center. "When someone walks into the center, their iPhone might be pinged with an advertisement or with a message alerting them to an in-store special," said Jamieson.

## Bold Statement No. 3: Shopping Centers Into Communities

According to Envision 2020, shopping centers are evolving from simple retail properties into shopping, dining and entertainment centers that are central to, and fully integrated with, the communities that surround them.

To remain relevant, large-scale retail projects must be more than just “a distribution center for goods,” said Yaromir Steiner, chief executive officer of **Steiner + Associates**.



**“You have to create a place that will become the center of people’s lives.”**

**Yaromir Steiner**, chief executive officer of Steiner + Associates

Steiner + Associates is set to unveil a mixed-use project in the greater Cincinnati area that features several parks, a nondenominational chapel and a “community house” that can be rented for wedding receptions and other functions.

For its part, Kimco Realty has taken a hard look at its portfolio to identify opportunities to incorporate apartments, hotels, cinemas, health clubs, additional restaurants and other types of uses that add density, foot traffic and vibrancy.

Many of Kimco’s centers were built decades ago and serve markets that have become denser over time. The company has preliminarily identified about 40 centers in its portfolio that have the potential for redevelopment into mixed-use properties.

### ***Shopping Centers as Cultural Hubs***

Indeed, shopping centers are coming to play a greater role in the cultural life of their surrounding communities. Some properties, like Liberty Center (the mixed-use center co-developed by Steiner + Associates and **Bucksbaum Retail Properties**, and opening this year in Greater Cincinnati) are monetizing their public spaces through sponsorship arrangements with businesses that get naming rights and limited use of the facilities for outreach events. Other centers, such as **Centro Comercial Santafé** Mall in Medellín, Colombia, are able to offset event-related costs through ticket sales.

In an effort to set itself apart from the competition and make its expansive main plaza more welcoming, Santafé, a six-level enclosed mall, began holding regular large-scale events in the plaza shortly after it opened in 2010. The events, which are produced in-house and change every two months, have become so successful over time that the mall now charges a minimal admission price. Visitors are also required to spend a certain amount at the mall to gain admission to the events. Some of the most-popular of these have included an elaborate “futgolf” course to coincide with the last year’s World Cup in Brazil; a giant ball pit that attracted 140,000 people during a 14-week period; and an intricately designed “flower carpet” to coincide with the city’s annual flower fair.



The only enclosed mall in Medellín, Santafé is situated near two other highly successful shopping centers. Over the past five years, it has become the city’s highest-grossing mall in terms of sales, and a social hub, thanks in large part to its popular events. Between 2010 and 2014, the mall’s yearly traffic count more than doubled to almost 14 million.

“When we first opened, the main plaza felt very cold and uninviting. It became like a liability for us,” said Juanita Gutierrez, the mall’s general manager. As a venue for large-scale events, the plaza has become an asset, she explained. “You need to give people reasons to come together. They can shop anywhere, anytime, but it is the experience you provide that makes the difference,” Gutierrez said.



**“We want [Santafé] to be like a Happy Meal. It has a meal, but it’s the surprise that comes along with the meal that makes the whole difference.”**

**Juanita Gutierrez**, general manager, Centro Comercial Santafé

In the Middle East, the shopping center industry is evolving to include a greater number of smaller-scale projects that provide both convenience and a tailored retail experience, according to Michael Cesarz, chief executive officer of the shopping center unit of **Majid Al Futtaim Properties**, based in Dubai.

“We are seeing a notable shift from the supercenter culture to smaller formats. While the supercenter concept will not go away, the smaller formats will become more dominant, as they better meet the needs of increasing urbanization and consumers’ changing notion of convenience,” he said.

The conversion of shopping centers into communities reflects an effort on the part of many landlords to court the all-important millennial generation, which, in the United States, is projected to surpass baby boomers this year as the nation’s largest living generation, according to the Census Bureau. Also known as Generation Y, millennials are those born roughly between 1980 and 2000. There are some 2.5 billion of them worldwide, representing about a third of the global population, according to a Viacom study.

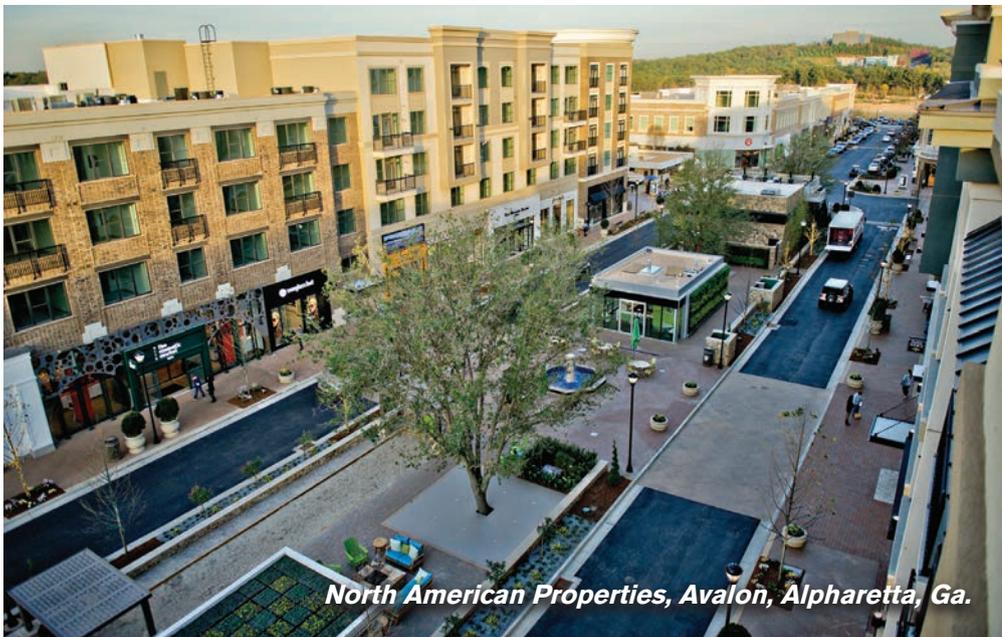


*Steiner + Associates, Liberty Residential, Cincinnati*

## Case Study: North American Properties

In 2011, North American Properties acquired a stalled, mixed-use development in Alpharetta, Ga., and set out to reimagine the project. Three years later, the company unveiled Avalon, the Southern USA's first "urbanburb," a vibrant, sustainably designed mixed-use property that has cultivated deep emotional ties to the surrounding community.

Alpharetta, known as "the technology city of the South," is a suburb of Atlanta that has enjoyed strong growth in population and household income over the past couple decades. "We knew there was an opportunity to create something really special in Alpharetta," said Liz Gillespie, vice president of marketing for North American Properties. "Our ultimate goal was to create a third place. After home and work, we wanted people to think of Avalon as their third place," a place that offers meaningful value, generates memorable experiences and fosters better relationships among people, explained Gillespie.



*North American Properties, Avalon, Alpharetta, Ga.*

NAP has positioned Avalon to appeal to what it calls the "new-class consumer," rather than targeting a specific demographic group. The "new class consumer," explained Gillespie, is not defined by age, but rather by lifestyle. He or she is someone who values wellness, sustainability, technology, community and local concepts.

Ultimately, NAP put together a mix of aspirational retailers and dining concepts created by 15 of Atlanta's most-celebrated chefs and James Beard-nominated restaurateurs.

According to NAP, many of Avalon's tenants are generating nearly \$1,000 per square foot in sales. The property is also commanding above-market office rents, and its luxury apartments and single-family homes have also performed well.

There is also plenty of anecdotal evidence to illustrate the strong following Avalon has cultivated, says Gillespie. Avalon, she notes, draws big crowds even when the stores aren't open. "People have gotten used to it being the place to go. On Easter Sunday, people were congregating in the plaza with their kids, playing bocce, and kids were on the swings," she said, "yet most of the shops and restaurants were closed."

## Bold Statement No. 4: Engaging Millennials

According to the findings of the Envision 2020 project, shopping centers will provide a more customized, personalized appeal to attract and engage the younger customer. There will be a heightened level of coordination between developers and retailers in creating a seamlessly attractive and entertaining environment.

### *What Millennials Want*

There are commonalities among millennials that have big implications for retailers and shopping center owners. Contrary to popular belief, most millennials (82 percent) prefer to shop in stores, although they spend a great deal of time browsing and researching products online, according to a study by **JLL**.



Millennials are savvy, price-conscious shoppers, yet they also tend to place a high value on experiences, perhaps more so than on the acquisition of material goods, according to Morley Winograd, a researcher specializing in the millennial generation. One of the experiences they value most is eating out, and that has contributed to a proliferation of restaurant concepts. As of the first quarter of this year, openings by food retailers represented nearly 40 percent of the planned store openings for the next 12 months, according to JLL. “This is a generation not only of techies, but foodies, both eager to go out and try new restaurants as well as to create fun, tasty food at home,” noted JLL.

As a group, millennials are also keen to make a difference in the world, and thus favor companies that prize social responsibility and environmental sustainability. “Millennials,” JLL noted, “want to believe in the companies they patronize.”

Many existing U.S. shopping centers were built in the burgeoning post-World War II suburbs, but millennials in their young-adult years apparently prefer city living, though that may change as they marry and have children. According to Nielsen, 62 percent of them say they prefer to live in the type of mixed-use communities found in urban centers, largely because of the job and social opportunities.

*Millennials prefer to live in mixed-use communities found in urban centers*



**“We have looked at our portfolio in depth to analyze the best ways to create that 24-hour, shop-work-play experience and integrating it into the local community.”**

**Conor Flynn**, president, chief operating officer and incoming chief executive officer of Kimco Realty Corp.

### ***Urban Renewal***

The influx of well-educated, young-adult millennials to major cities has given rise to stronger retail, apartment and office demand in certain downtown markets, creating opportunities to reposition existing urban centers and undertake a limited amount of development.

In downtown Los Angeles, **Brookfield Property Partners** has taken a once-ailing center and repositioned it to serve the large number of millennials who now live and work in the market. Called Figat7th, Brookfield has added new retailers and food-court concepts created by local chefs and restaurateurs with a strong following on social media. The center has a robust events schedule, and many of its programs are arts-focused.



In Latin America, **Mall Plaza**, a Chile-based retail development company that owns more than a dozen centers in the region, has sought to position its properties as social hubs for surrounding communities.

“In Latin America, the economy is growing and people now have more options in terms of how they spend their leisure time,” said Maria Elena Guerrero, Mall Plaza’s head of marketing for Latin America. “That is why we are focusing not just on shopping and dining, but also on entertainment. Millennials are looking for high-value experiences.”

The company has enhanced its mall apps, added restaurants and amenities to its properties (from bicycle racks to a public library), and relied heavily on social media to engage consumers and build its brand. Its Mall Plaza Facebook page has some 1.5 million followers in Chile. Each year, the company produces a large-scale musical, which is shown for free at its shopping centers in Chile and streamed on the web.



Last year, at Mall Plaza Oeste in Santiago, the company replaced an above ground parking lot with a lagoon surrounded by restaurants. It also added a playground for children. “We decided to put the parking underground so that we could use that space to build a very big lagoon surrounded by restaurants,” explained Guerrero. The center serves a populous market, where there are few homes with yards.



**“Real estate is a social science. Investors need to understand consumer behavior to understand the rationale behind their assets.”**

**Mark Stapp**, executive director of the Master of Real Estate Development program at Arizona State University



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**“When someone walks into the center, their iPhone might be pinged with an advertisement or with a message alerting them to an in-store special!”**

**David Jamieson**, executive vice president of asset management and operations of Kimco Realty Corp.

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As they woo millennials, developers are not only adding restaurants and new retailers, but also placing a greater emphasis on sustainability. In 2012, Hong Kong’s **Parkview Group** opened the first LEED Platinum-certified, mixed-use property in Asia. The property, Parkview Green in Beijing, contains a four-level shopping center whose tenants include high-end, socially conscious retailers, from fashion chain Stella McCartney to electric-car purveyor Tesla Motors. The complex has become a magnet for affluent locals, including large numbers of young families drawn by its extensive art collection and other features.

In the Middle East, **Majid Al Futtaim Properties** has embarked on an ambitious sustainability program. As a result of its efforts, City Centre Mirdif in Dubai, one of the largest malls in the world, has achieved the U.S. Green Building Council’s LEED Gold EBOM (Existing Buildings Operation and Maintenance) rating. Over the course of 18 months, the company worked with more than 500 retailers at the three-million-square-foot mall to achieve environmental targets in a number of categories, from water efficiency to green cleaning practices.

“The harsh Middle East climate previously excluded buildings from achieving LEED EBOM because of the high amount of energy consumption used for cooling and the complex nature of integrated malls in the region,” said Cesarz, chief executive officer of the company’s shopping center unit.

### ***On the Suburban Front***

Suburban centers are also morphing to cater to millennials. **CBL & Associates Properties, Inc.**, one of the largest U.S. mall REITs, is seeking to position its suburban malls as town centers. To this end, the company is considering adding new uses, such as apartments and hotels, as space becomes available at its properties.

U.S. shopping center occupancy rates hit a six-year high in 2014, reaching 92.7 percent, according to ICSC. Mall occupancy rates stood at 94.2 percent last year, the highest level since 1987. In light of that, CBL will look to repurpose space vacated by contracting department store chains in order to add popular retailers and possibly new uses, said CBL’s Stephen Lebovitz.

The growing influence of millennials and the changing nature of demand in many suburban markets have led CBL to look at its properties through a different lens. “When we built these properties, they were located in cornfields. Today they are in the middle, for the most part, of densely developed suburban areas. They are not located downtown, per se, but they are in markets that are essentially equivalent in terms of population,” Lebovitz explained.

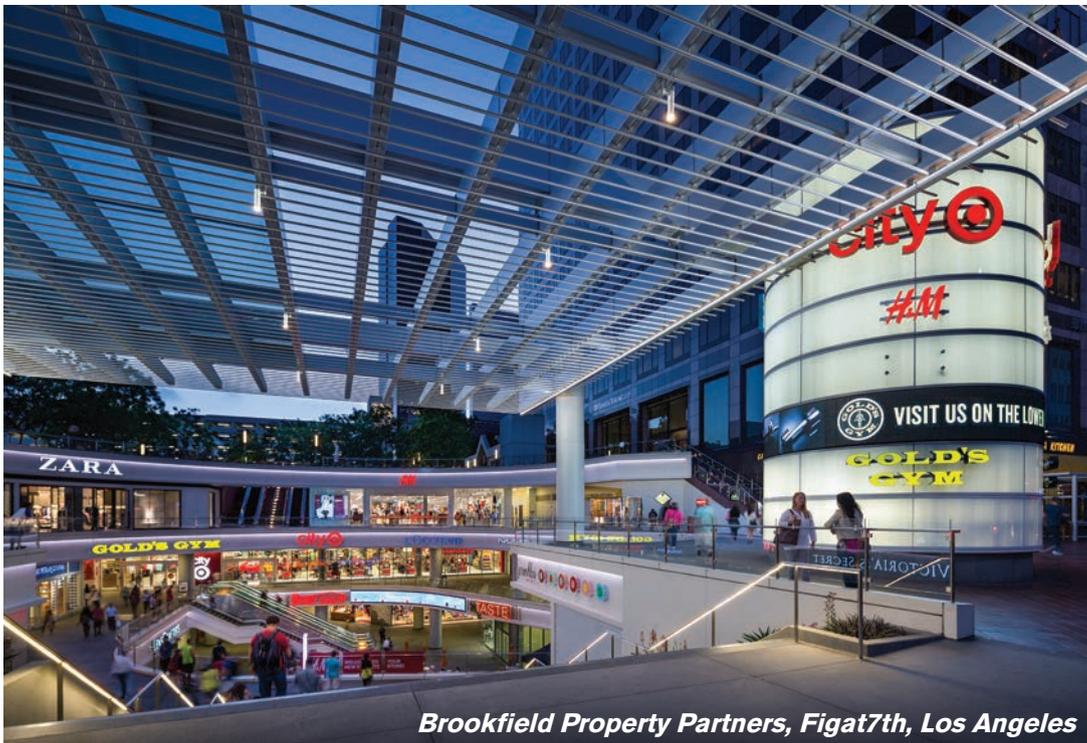
As landlords position their properties to stay relevant in the digital age, shopping centers are increasingly doubling as distribution centers for online purchases. The trend is tied to efforts on the part of retail chains to leverage their existing real estate portfolios and store personnel to fulfill online orders. Interestingly, retailers may become more reluctant to shutter stores in second and third-tier centers, where rents are relatively low, because of the enhanced role stores now play in terms of fulfillment.



*CBL & Associates Properties, The Outlet Shoppes of the Bluegrass, Simpsonville, Ky.*

## Case Study: Brookfield Property Partners

In 2010, Brookfield Property Partners set out to breathe new life into an ailing 1980s-era shopping center in downtown Los Angeles that it acquired through its acquisition of Trizec Properties Inc. The center, now called Figat7th, is nestled between two office towers owned by Brookfield, which has become downtown L.A.'s largest office landlord in recent years.



*Brookfield Property Partners, Figat7th, Los Angeles*

Rather than simply repackage a typical suburban mall, Brookfield redeveloped Figat7th into a lifestyle center that, together with nearby L.A. Live, has helped to transform downtown L.A. into a cultural, dining and shopping hub. Thanks to Figat7th, L.A. Live, the Staples Center and a boom in residential construction, the downtown L.A. market has become the kind of “live, work, play” environment that appeals to millennials, the target audience for Figat7th. The market's residential population has more than doubled over the past seven years and continues to

grow rapidly, according to Bert Dezzutti, an executive vice president in the U.S. office division of Brookfield. “No longer are people looking for the sterile suburban mall. They want authenticity” in terms of tenant mix, design and events, he added.



**“The biggest single thing we knew we needed to get right with Figat7th is how the center relates to the surrounding neighborhood.”**

**Bert Dezzutti**, executive vice president, U.S. office division of Brookfield Property Partners



**Q&A with  
Bill Taubman**  
Chief Operating Officer  
Taubman Centers, Inc.

As chief operating officer of Taubman Centers Inc., William “Bill” Taubman, and his brother Robert, sit at the helm of a company founded by their father, the late A. Alfred Taubman, who is largely known as the father of the modern shopping mall.

More than six decades after its founding, the company, a real estate investment trust, owns some of the most upscale and profitable malls in the United States and continues to innovate on multiple fronts.

***What are the biggest forces shaping the shopping center industry and, in light of those trends, how will the industry be different five to 10 years from now?***

**Taubman:** Most malls – as well as the retail business in general – had a more homogeneous product offering in the 1950’s and early part of the 1960’s. Today, we are in a much more splintered retail market, and I see that process really continuing.

***What trends do you see on the retail horizon?***

**Taubman:** One trend that will accelerate is web-only companies opening brick-and-mortar stores. Another trend is the consumer desire for authenticity and experience. Properties like Park Meadows [a General Growth mall in Lone Tree, Colo.], express this from a design standpoint, where the “lodge” design is meant to evoke a local culture that connects emotionally with customers. On the other hand, Cherry Creek [a Taubman mall in Denver] has a modern, contemporary aesthetic which uses its connection to Cherry Creek North to create a unique shopping destination that cannot be replicated.

***How does the growing consumer desire for authenticity and experience play out in terms of merchandising?***

**Taubman:** Making stores feel unique and local will be more important 10 to 20 years from now. You are going to see an increasing focus on food over the next 10 to 20 years. The tenant pool is shrinking in general, but the tenant pool for restaurants is growing at lightning speed.

***Let’s talk about a couple of your most recent projects. In 2012, Taubman Centers opened City Creek Center in Salt Lake City. This year, your company opened the upscale Mall of San Juan in Puerto Rico. How do these projects represent the future of the industry?***

**Taubman:** I don’t think there is one future. You are not going to have a one-size-fits-all solution. City Creek is both internally and externally oriented in a very open and porous way. The mall represents the ideal of how downtowns can be reinvented and rethought. The Mall of San Juan is really the height of contemporary international design...a machine for retail business that embraces a Latin flair.

## Bold Statement No. 5: Incorporating Distribution

The new shopping center model will combine traditional retail options with physical distribution points designed to fulfill both brick-and-mortar and e-commerce orders.



**“Everyone is trying to get closer to the customer in order to deliver things quickly, and that is where brick-and-mortar stores have a tremendous advantage.”**

**David Henry**, vice chairman and chief executive officer of Kimco Realty Corp. (He is also an ICSC Trustee and Past Chairman)

During the past several years, **Macy’s Inc.**, which is now one of the 10 largest Internet retailers in the U.S., has expanded its fulfillment network to include all 800 of its Macy’s and Bloomingdale’s stores. Last year, the company shipped more than \$1 billion in merchandise from its stores to customers.

The store-fulfillment infrastructure also allowed the company to offer “buy online, pick up in store” service at every location, beginning last year. In addition, Macy’s has begun offering same-day delivery service to customers in eight pilot markets, according to a company spokesman.



Meanwhile, **Gap Inc.** has rolled out a “Reserve In Store” service that allows consumers to identify an item on the websites for Gap, Banana Republic and Athleta, select their desired size and color, and find out which nearby stores carry that particular product. Shoppers can then reserve the item online for pickup at a store.

Shopping center owners are also getting in on the act. **General Growth Properties Inc., Westfield Corp., Macerich Co.** and **Simon** have invested \$4.5 million collectively in **Deliv Inc.** and rolled the delivery service out to various malls. Deliv uses “crowd sourced”

personnel to provide shoppers with same-day delivery of online or in-store purchases from mall tenants at prices equal to or less than standard shipping fees.

Last year, Westfield launched a luxurious click-and-collect lounge at Westfield London in partnership with **CollectPlus**, a parcel delivery service. Consumers can order products online from participating brands and have the items delivered to the CollectPlus lounge, where they can enjoy complimentary refreshments and try on items in changing rooms. Shoppers can return unwanted items directly from the lounge. The mall provides one hour of free parking for visitors using the lounge to pick up or drop off items.

It's not hard to see why landlords and retailers are undertaking such initiatives. According to a report by consulting firm **A.T. Kearney**, studies have found that 23 percent of customers purchase additional items when picking up an online order from stores. Retailers also report that up to 20 percent of consumers who return an online purchase to a store make an additional purchase while they are onsite, according to A.T. Kearney.

With malls playing a greater role in the fulfillment of online orders and landlords rolling out technology to serve tenants and consumers, the relationship between shopping center owners and retailers is evolving beyond the leasing of space.



*The CollectPlus lounge at Westfield London*

## Case Study: Related Companies, Hudson Yards

**On Manhattan's Far West Side, Related Companies is developing one of the few large-scale shopping centers under construction anywhere in the U.S. Kenneth Himmel, president and CEO of Related Urban, bills the project as a new paradigm for shopping and dining in the digital age, when it's imperative, he says, to "give people a reason to get off the coach."**

The 1 million-square-foot, vertical center will feature New York City's first **Neiman Marcus** store, more than 100 shops and a diverse group of chef-inspired eateries (collectively serving as an anchor) curated by Himmel and renowned chef Thomas Keller.



*Related Companies, Hudson Yards, New York*

The center, slated to open in 2018, will also have a huge captive audience someday. It is part of a \$20 billion mixed-use project, called Hudson Yards, which is transforming a once-industrial area of the city between the fast-growing Chelsea and Hell's Kitchen neighborhoods.

Related, which has partnered with **Oxford Properties Group** on Hudson Yards, is essentially building a city within a city. In all, the 17 million-square-foot project will contain five office towers; some 5,000 residential units; 14 acres of public open space (including a six-acre public square); a public school; and a 200-room luxury hotel, as well as the shopping center – called The Shops & Restaurants at Hudson Yards. The center will connect two of the office towers, one of them featuring the city's highest outdoor observation deck.

"People drive by the site today and think we are pioneering. They worry about how retailers are going to survive [at the location] because they don't understand how much density we are delivering to the site," said Himmel, who oversees the mixed-use development arm of Related.

According to the company, Hudson Yards is the largest private real estate development in the United States and the largest development in New York City since Rockefeller Center. It is

ultimately expected to attract more than 24 million visitors a year, including large numbers of domestic and international tourists. Himmel notes that vertical malls have been highly successful in Asia, a region that is a major source of tourism to the United States. "You'd expect to see all of the luxury stores on the first level of the project. That's how it is typically done over the world. But we've turned that model upside down," said Himmel.

## Case Study: Steiner + Associates

In early October, Steiner + Associates will unveil an ambitious mixed-use project that is designed to serve as a cultural, recreational and commercial hub for the central Cincinnati-Dayton Metroplex.

The fast-growing suburban market has a population exceeding 450,000 and an average household income of more than \$94,000, yet it lacks a physical focal point, not to mention a regional shopping center, according to Steiner + Associates.



dining, special events and, of course, commerce” said Yaromir Steiner, founder and chief executive officer of Steiner + Associates.

Liberty Center will be home to an eclectic mix of more than a dozen experiential restaurants. It will also house a luxury, dine-in movie theater called CineBistro and a 400-seat Funny Bone Comedy Club. Inside Liberty Center’s enclosed shopping center, there will be an expansive gathering space that Steiner calls “the living room.” The shopping center will also feature a museum-quality Children’s Discovery Center, complete with a 3,000-square-foot climbing structure.

Steiner + Associates is also building a so-called community house at the project. The facility, which will be available for rent, will be a flexible space that can accommodate groups as large as 400. There is also a spiritual component to Liberty Center, in the form of a chapel, called Unity House, serving as a venue for different types of religious services, yoga classes and Bible study, among other uses.

Partly to appeal to millennials, Steiner + Associates has made heavy use of technology throughout the project. In the living-room area, for instance, shoppers will be able to upload selfies to the interactive video wall.

Liberty Center will fill those voids in the market by essentially serving as a planned town center. The walkable, urban-style district will feature a variety of public spaces and amenities as well as extensive entertainment and dining options. Steiner + Associates is developing the 1.3 million-square-foot project in partnership with **Bucksbaum Retail Properties**. “We believe that if large-scale projects are to remain relevant, they have to be responsive to the aspirations of the community. They have to become the place where people go for recreation,

## **Bold Statement No. 6: Developer-Retailer Collaboration**

**According to the Envision 2020 project, in the coming years a new paradigm will evolve for landlord-tenant collaboration, involving a sharing of data and technology.**

### ***Taking on Amazon Together***

Landlords and major retailers are investing heavily in technology designed to provide insights into shopper behavior and connect the digital and physical worlds of retailing. To make the most of these investments and compete with online marketplaces, shopping center owners and traditional retailers will need to engage in a greater level of data sharing, says Westfield's Steven Lowy. "There are discussions underway about this between senior retailers and real estate providers like us," he explained. "There need to be sound policies and protection mechanisms in place, but enhanced data sharing will give both sides an ability to work together to give a much better experience to the consumer," he added.



In the so-called demand economy, consumers want to be able to digitally access store inventory and choose from an array of options for collecting purchases. They may, for instance, want to stroll through a store or shopping center, buying things via their smartphones and then have the items delivered to their cars or homes.

For landlords and retailers to roll out platforms that "do all these things really well will require a really sound data relationship," said Lowy. Westfield has launched an array of digital tools over the last several years, from a Westfield app product-search feature to interactive digital storefronts that allow consumers to discover products offered by mall tenants in real time.

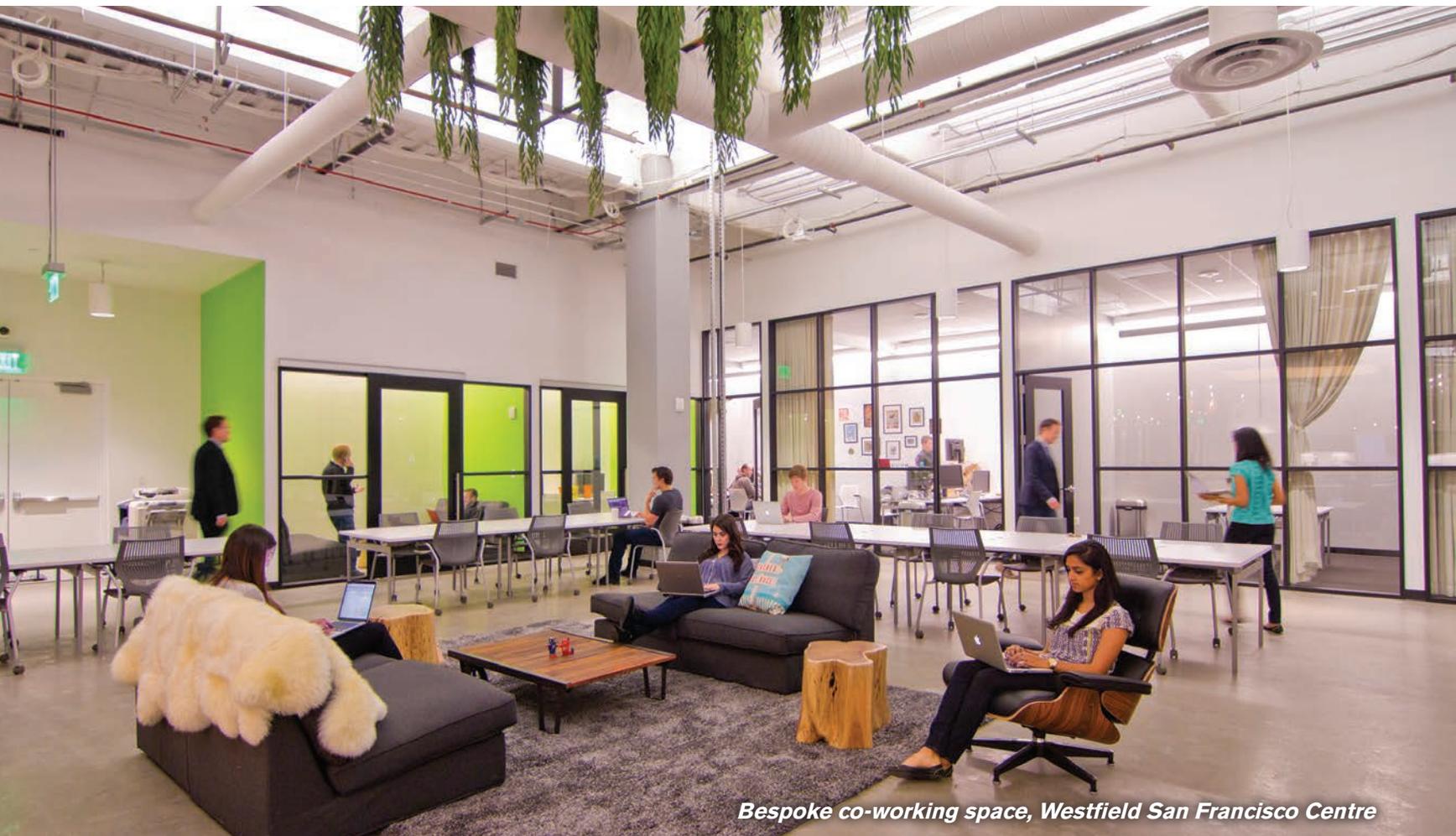
### ***Shopping Centers as Frontiers***

As they explore a greater level of data sharing, shopping center owners and retailers are working together in new ways. Kimco Realty Corp., for instance, is capitalizing on the stepped up pace of store openings by Internet players. Through its "Clicks to Bricks" program, the company offers qualified online retailers one year of rent-free tenancy (excluding triple-net fees) in a single store. Kimco also provides such merchants with a "personal business counselor" to assist with site selection and store build out. After the first year of the lease, the retailer can choose to exercise a four-year extension option, according to Kimco.

“We realize that the omni-channel world is going to grow. Rather than fight it, we have taken steps to embrace it and make sure that we are doing everything we can as a landlord to offer a unique experience that gets people back to the shopping center again and again,” said Kimco’s Conor Flynn.

This year, Westfield unveiled a dedicated physical space for retail and digital innovation at its Westfield San Francisco mall. The 37,000-square-foot facility, called Bespoke, enables entrepreneurs, brands and retailers to collaborate with one another and refine and debut their work within the shopping center environment. Bespoke includes 2,000 square feet of demonstration space and a 3,000-square-foot pop-up shop, in addition to co-working and event space.

Bespoke, explained Lowy, is “a hub for innovation, a physical space to connect retailers and technology providers in a real-world environment.” “It is in the entire industry’s interest,” he added, “that retailers become better at embracing technology and technology providers get better at servicing retailers.”



*Bespoke co-working space, Westfield San Francisco Centre*

## Case Study: Simon

**Simon, the largest U.S. mall owner, has positioned itself on the front lines of the technological revolution that is blurring the lines between physical and digital retailing.**

Simon has launched a venture capital arm, called **Simon Venture Group**, to invest in brick-and-mortar and online/mobile technologies that enhance the shopping experience and further retail innovation. SVP is investing from \$250,000 to \$5 million per company over the next five years in early-stage to high-growth companies focusing on in-store technology, payment technology, logistics and delivery, analytics, mobile payment, indoor mapping and navigation and online retailing, among other specialties.

It has already invested in more than a dozen companies, including Deliv Inc. “We believe we have only scratched the surface in applying technology to the retail environment in innovative, interesting ways,” said Mikael Thygesen, Simon’s chief marketing officer.



At the same time, Simon is equipping its malls with new forms of digital technology intended to improve the shopping experience and engage millennials and other tech-savvy consumers. The company has outfitted its malls with Bluetooth-enabled iBeacon technology, which “wakes up” the app for specific centers or apps for participating retailers as shoppers stroll through a property with their mobile phones in tow.

Simon has also enlisted eBay to develop a “smart” digital directory that is currently in use at Stanford Shopping Center in Palo Alto, Calif. By tapping on the name of a particular tenant, shoppers can call up information about sales and special offers at that store as well as an interactive map displaying its location and the best route to get there. “Enhancing the shopping experience of our visitors through accessible, easy-to-use technology is a top priority for Simon,” said Thygesen.

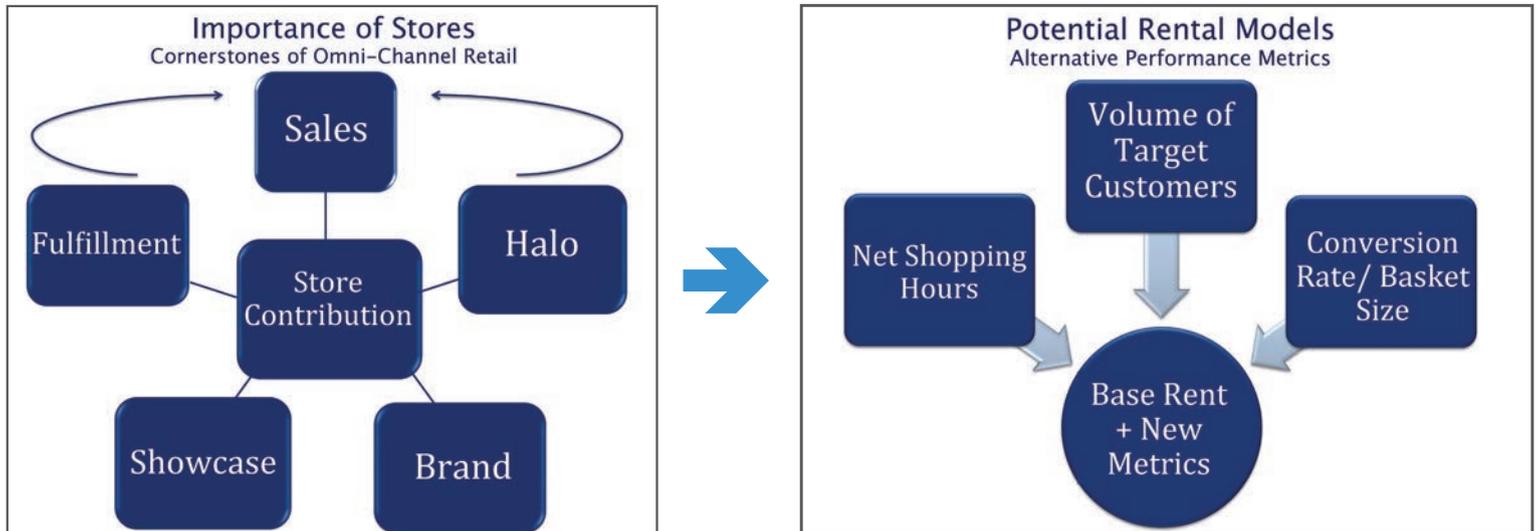
Simon is also leveraging the name recognition that it has built among consumers. In 2014 the company rolled out a nationwide branding campaign, the first-ever by a mall owner and operator. The campaign stresses Simon’s core principles – fashion, discovery and community – and ensures consistent messaging across marketing platforms. “Traditionally mall operators have relied upon their retailers to do the heavy lifting in terms of driving consumer engagement and traffic,” said Chidi Achara, Simon’s global creative director. “We have come to the realization that we need to work alongside our retailers to create our own brand identity that can also be a driver of consumer engagement.”

## Bold Statement No. 7: A New Blended Rental Model

According to the Envision 2020 project, rents will eventually be determined through new formulas that account for the role of the physical store in the broader omni-channel retail activity. The current system for establishing and negotiating rents based upon projected sales will evolve into a more flexible model that incorporates both online and in-store volume. Future rental models will need to accommodate the growing percentage of retail sales tied to stores, even if transactions are ultimately executed online. Newly emerging hybrid-shopping patterns, such as showrooming and webrooming, will need to be factored into rental formulas. Evolving rental models will need to consider the interests of both developers and retailers, and define a business scenario that is fair and equitable to both.

### *ICSC Research: Emerging Rental Models*

ICSC has already begun to move the ball forward on this issue. In a research report released this year, ICSC details how retailers and shopping center owners in the United States and Europe are changing their business models in response to the evolution of omni-channel retailing, and how such changes are shaping asset strategies, lease models and rental metrics. The findings of the report are based on about 90 interviews with representatives of retail and shopping center companies on both sides of the Atlantic, as well as on secondary research.



According to the report, the physical store remains the cornerstone of retailers' omni-channel strategies, with a value far richer than that of a mere point-of-sale. In light of that, shopping center professionals are re-evaluating existing lease models and rent metrics to determine if traditional approaches are still appropriate.



**“There is an amazing amount of [institutional] capital chasing real estate.”**

**David Funk**, director of the Baker Program in Real Estate at Cornell University

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### ***Hurdles to Change***

Yet they have only begun to tackle these complex issues. According to the report, owners and retailers have been primarily focused on transforming their own business models to changing consumer behavior and expectations in an omni-channel world than on exploring how rent structures should adapt. What’s more, many retailers have yet to fully master the costly and complex omni-channel model, such as inventory management and fulfillment. And, for the most part, retailers still haven’t been able to isolate the contribution of the physical store to sales across multiple touch points with the consumer. According to ICSC’s research report, a recent global survey of cross channel retailers revealed 60 percent of retailers are still running separate profit centers for in-store and online operations.



## ***Emerging Ideas***

As retailers and landlords fully embrace the omni-channel world, we are likely to see new lease models emerge, with the range of models commonly employed being more dynamic to suit different circumstances.

The range of potential models includes more traditional approaches such as fixed rent, and base plus percentage rents; enhancement of these models by including a proportion of click and collect and in-store online sales in the percentage rent.

Similarly, new concepts including geo-code models that might apply different rates to various types of transactions depending on the contribution of the store to the sale are discussed. For example, in-store sales might command the highest rates and non-store influenced, online transactions warranting the lowest rates. The latter might reflect a “regional halo” effect of a store – in other words the influence of the store’s visibility overall sales within a given market.



Shopping center owners and retailers also raised the potential of using alternative performance metrics in lease models. For example, in place of a percentage rent component based on turnover, a performance metric that measured the delivery of the “customer opportunity,” might be applied.

In addition:

- **Possible performance-related metrics** will include net shopping hours, volume of customers and conversion rates and basket size. Net shopping hours reflect the volume of consumers and their dwell time, thus providing a gauge of the “consumer opportunity afforded” by the shopping center, according to the report. In addition, metrics that considered an individual retailers net contribution / benefit to footfall is considered, based on the calculation of peel-off rates between retailers. Foot traffic and customer flow are monitored at many major shopping centers, yet tools for measuring them vary widely in sophistication and accuracy, the report notes.
- **Thanks to Wi-Fi, beacons, smartphone apps and other technology**, shopping center owners are now able to develop more refined metrics that quantify the volume of those making purchases, rather than simply the volume of visitors. The sophistication of digital tracking is accelerating rapidly.
- **Conversion rates and basket size might also serve as appropriate performance metrics** within new lease models, although some owners argue that their job is to deliver the right type of consumers and retailers are ultimately responsible for their conversion to sales. Retailers have traditionally used key metrics, including conversion rates and basket size, to benchmark store performance. As they improve their ability to track consumers across platforms and gain greater insight into the cross-channel shopping behaviors of individuals, retailers should be able to refine key metrics to include the contribution of the store to individual sales, whether the sales occurs in-store or elsewhere, according to the report.



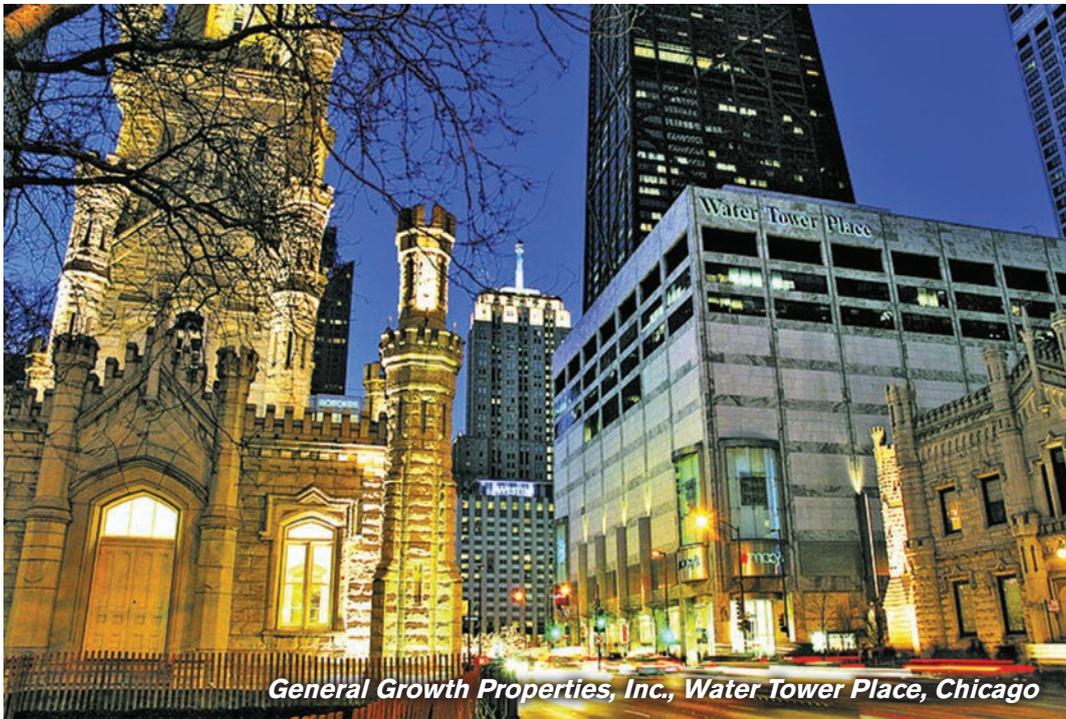
## Case Study: General Growth Properties, Inc.

In the digital age, some leading retailers and shopping center companies are joining forces to find common solutions to their biggest challenges and share innovations.

For almost two years now, the chief executives of some of the largest U.S. retail chains and shopping center companies have met quarterly to discuss their concerns and share innovations, according to

Sandeep Mathrani, chief executive officer of **General Growth Properties, Inc.** Mathrani is among the 10 CEOs who participate in the discussions, which are chaired by a Harvard Business School professor.

“We talk about innovation, about foot traffic in the mall, what is right and what is wrong, and we do it in an open forum,” said Mathrani, who is outspoken about the need for landlords to remain focused on what he calls “table stakes” – his term for the fundamentals of the shopping center business.



*General Growth Properties, Inc., Water Tower Place, Chicago*

“The two most important things are curating the mall with the right retailers and reducing pain points for consumers, the biggest of which is parking. Honestly, everything else is just noise,” he said.

Leading retailers, he added, have become much more willing to privately share information with General Growth that they once considered proprietary, such as traffic patterns and demographic data. A freer exchange of information has helped both sides spend marketing funds more wisely and avoid duplication, explained

Mathrani. “We have a complete open-door policy to share data,” he explained. “We keep a tremendous sense of confidentiality, and [by sharing information with one another] we are able to help each other spend marketing dollars appropriately.”

## Bold Statement No. 8: A Retail-Friendly Investment Outlook

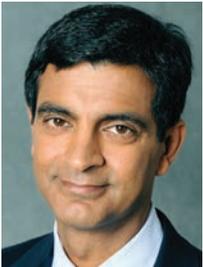
**According to the Envision 2020 project, lenders will increasingly favor retail investment opportunities in the newly emerging shopping center formats.**

But don't expect an initial rush of investment in new property formats, such as those containing apartments, hotels and other non-traditional uses of space, said Jim Costello, a senior vice president at Real Capital Analytics.

"Lenders are conservative and they want to see results first. The problem with new retail formats is that we don't have existing benchmarks" for performance, said Costello.

### *Institutions Favoring Top-Tier Centers*

In the meantime, many institutional investors are bullish about the outlook for existing top-tier retail properties in major markets, given their relative performance, the minimal development underway and high levels of reinvestment by owners.



**"If you are the owner of the top 500 regional malls in the country, the line of investors is deep and will keep getting deeper."**

**Sandeep Mathrani**, chief executive officer of General Growth Properties, Inc. (He is also an ICSC Trustee)

The amount of institutional capital allocated to commercial real estate is expected to increase dramatically in the coming years, said David Funk, director of the **Baker Program in Real Estate at Cornell University**. The U.S. market, he noted, is likely to attract the lion's share of the "tsunami of capital" flowing into commercial real estate.

Institutions now allocate nearly 10 percent of their portfolios to commercial real estate, a significant increase over the last several decades.

TIAA-CREF, a leading institutional investor that has been active in the shopping center sector for many years, expects to increase its holdings in dominant U.S. superregional malls. It has been investing in such assets through its joint venture with Dutch pension fund APG, but is seeking to raise more capital in order to compete in the space. TIAA-CREF already has nearly \$7 billion invested in U.S. retail real estate, which includes interests in top-tier regional malls and open-air centers anchored by leading grocers.



**“We tend to focus on large superregional malls that dominate their markets and are run by the top operators. Our view is that these centers will benefit from the omni-channel experience and continue to get stronger over time.”**

**Richard Coppola**, managing director and head of capital markets/global real estate, TIAA-CREF Financial Services (He is also an ICSC Trustee)

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According to TIAA-CREF, superregional malls have historically outperformed other property sectors in terms of net operating income (NOI) growth. They have also experienced a lower level of NOI volatility than have other property sectors.

Earlier this year, TIAA-CREF bought a stake in Ala Moana Center in Hawaii from General Growth Properties. According to TIAA-CREF, the mall has sales of more than \$1,350 per square foot, and is among the top performing properties in GGP’s portfolio.

Ala Moana “is like the poster child for our investment thesis. It has been a stable, outperforming mall, one of the best in the country, for a very long time, and there continues to be significant upside,” said Coppola, adding that the virtual lack of development is a silver lining in the regional mall sector. “There is just no new construction in this space whatsoever. As more and more capital flows into this space, at some point there will be a scarcity premium. If you’re an owner, you are going to be sitting in a pretty good place,” he added.

### ***Lenders and Investors Coming Around***

Lenders and investors have become increasingly comfortable with the idea that the shopping center industry has achieved a healthy balance between supply and demand, owing to historically low levels of development and rebounding fundamentals, said Kimco’s David Henry.

Many lenders and investors have also come to the realization that, rather than disappear because of the growth of e-commerce, shopping centers are critical to the omni-channel retailing equation, Henry said.

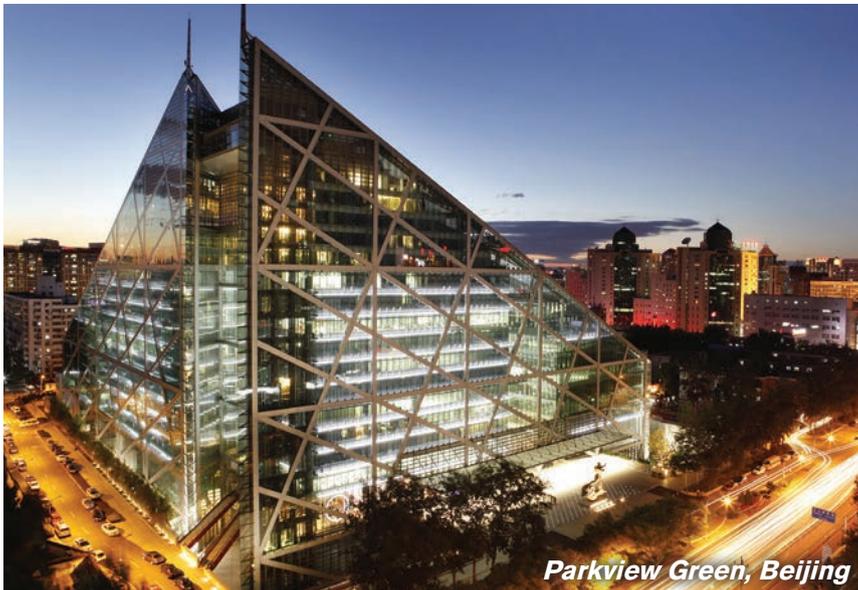
“When lenders look at the fundamental metrics of the shopping center industry,” he said, “they are increasingly comfortable that e-commerce is not going to put us all out of business, and that actually occupancies and rents are going up.”

## Case Study: Parkview Green

Since it opened in 2012, Parkview Green FangCaoDi in Beijing has set itself apart from the many high-end, cookie-cutter malls that have sprung up in China in recent years. As a result, the mixed-use property has cultivated a strong following among affluent Beijing residents drawn by its shops, extensive art collection, cutting-edge design and large collection of restaurants.

Parkview Green contains a four-level shopping center, office towers and a stylish boutique hotel, all enclosed in a transparent, pyramid-shaped structure that keeps out pollution and regulates the interior climate.

Asia's longest internal suspension bridge runs through the complex, providing pedestrians with striking views from the bridge and fostering a tight connection within the community.



*Parkview Green, Beijing*

Parkview Green is the only LEED Platinum-certified, mixed-use property in Asia, according to its developer, Hong Kong's Parkview Group. The complex uses 50 percent less energy than do projects of comparable size, according to the company.

Parkview Green was designed to blend harmoniously with its dynamic neighborhood, FangCaoDi. To avoid blocking sunlight from neighboring residential properties, the building enclosing the complex was given a sloping, rather than flat, roof.

Chinese “consumers are getting more educated on what is out there and what should be out

there and putting more demands on landlords,” explained Paul Klein Bog, head of retail leasing for Parkview Green.

Rather than focus strictly on traditional luxury brands, Parkview Green's shopping center, which has about 90 stores, features a mix of traditional and trendy luxury concepts. Nearly 35 percent of the retail space is leased to food and beverage concepts, which not only draw visitors to Parkview Green but also keep its 8,000 office workers onsite longer. The complex also has one of the largest art collections of any commercial building in the world, culled from the private collection of Parkview Group Chairman George Wong.

“We have been able to reach a sophisticated consumer in Beijing at a time when the market, especially for luxury brands, is not as strong as it used to be,” he explained.



## Conclusion

The shopping center industry has not only proven to be remarkably resilient, but continues to be a work in progress as owners respond to societal shifts and technological changes. It also remains a potent economic force.

In the United States alone, shopping center retail sales were \$2.5 trillion in 2014, about half of total domestic retail sales, according to ICSC. Shopping center employment was some 13 million, approximately 9 percent of non-farm U.S. employment.

Through Envision 2020, ICSC has leveraged its position in the industry to engage its diverse constituency in a collective effort to glimpse the future and move forward together.







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