# Redefining the Mall

The COVID pandemic has compounded the fear of empty strip centers and malls becoming commonplace. Yet, data shows that brick-and-mortar shopping malls are here to stay, even if not in their original form. And apart from a clear upper class of high performers, those operating indoor malls and outdoor shopping centers understand that they must adapt to survive. While COVID clearly impacted the speed of these changes, many were taking place far before the pandemic. A large number of malls are being called to reinvent themselves, redevelop, and provide new and unique experiences in order to succeed. This begins with a reimagination of which types of tenants fit best.

But like in any change, there is a unique opportunity to maximize the chance of success by leveraging objective data. A smart redevelopment or upgrade process must be data-driven. It should consider a wide range of factors, from the rise of e-commerce to changing consumer behavior and demographics.

This paper discusses the question of when and how malls should redevelop or upgrade and describes three examples of approaches that can be applied to drive a data-based redevelopment process.

## 1. Out-of-the-Box Tenant Selection

The overextension of many mall tenants and their need to rightsize was noticeable long before the pandemic. That, along with a seemingly one-size-fits-all mall style that was copied and pasted across the country, led to the realization that the reach of the classic anchor department store was limited and that new types of tenants must enter into the mix to augment that role.

With mall visitors wanting to do more today than just shop and new brands across sectors looking for offline homes, malls and shopping centers have an opportunity to think outside the box about the types of tenants they want to host. By transforming struggling retail spaces into offices, schools, fitness centers, or medical centers, malls can create engaging experiences that attract traffic and enable these locations to thrive.

We dove into the location data of three different types of non-classic mall tenants to understand their impact on shopping mall foot traffic performances and visitation patterns.



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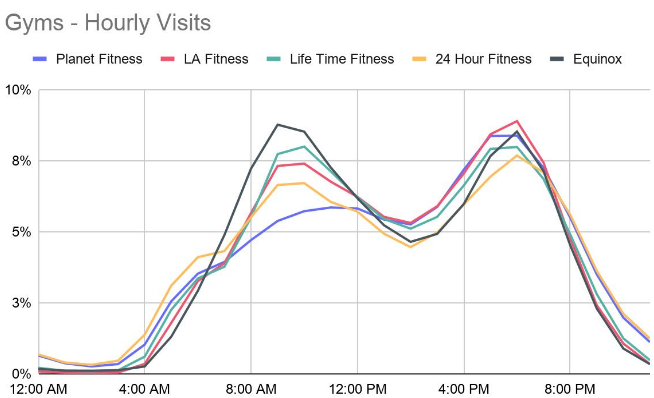
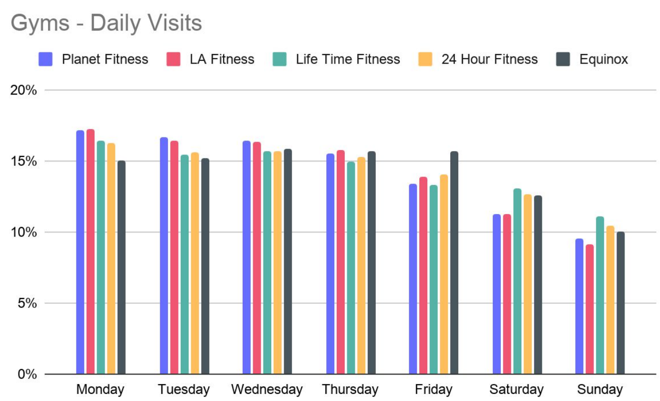
### Gyms and Fitness Centers

Many malls have begun hosting gyms and fitness centers as part of their transformation into one-stop-shops. With an ability to drive recurring weekly or even daily traffic, gyms have proven valuable assets for malls. But to derive maximum value from gyms, mall owners must understand the unique customer behavior and visitation patterns associated with this potential. We analyzed five leading fitness chains from January through November of 2020 to understand these patterns and to evaluate their contribution to overall mall foot traffic as potential tenants.

The five fitness chains had similar hourly visit patterns, with two main visiting hour peaks - a morning jump at around 9-10 AM and an early evening peak at around 6 PM. Another difference centered around the day of the week. While visits to malls and their tenants tend to peak on weekends, gyms are weekday oriented. The five fitness brands analyzed saw an average of 15.6% of visits across each weekday, with only 11.1% of visits on Saturdays and Sundays on average.




This positions gyms to provide a unique benefit that augments many centers' existing weekend strengths by providing more weekday visits. These elements speak to an especially strong asset for malls looking to cater to local office and residential areas. The result would be a mall with more consistent strength that is less dependent on weekend surges.

Another value comes from the ability to offset seasonal lulls. The strongest time period for fitness brands is not late in the year, but during a Q1 surge driven by new year's resolutions and a greater focus on health and wellness. This is a powerful benefit, as it comes during a weaker period following a typical retail spike in November and December.



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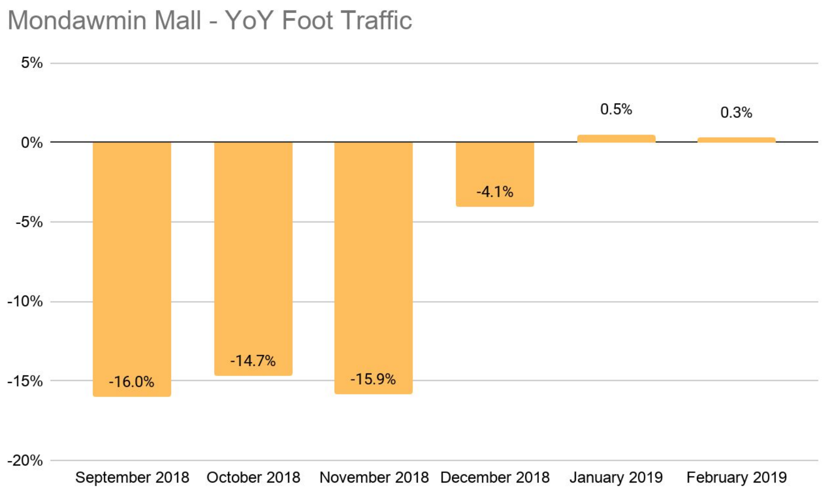
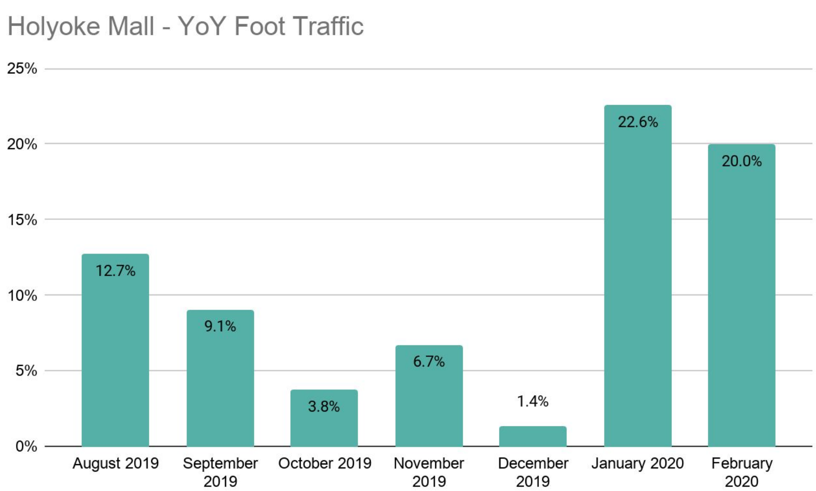
And this particular impact was felt in both the Mondawmin Mall in Maryland and Holyoke Mall in Massachusetts - two examples of malls that capitalized on an addition of a Planet Fitness gym.

With the opening of Planet Fitness in Mondawmin Mall in January 2019 and a getting-fit-and-healthy new year's resolution of many mall visitors, the mall's year-over-year foot traffic rates grew from minus to plus, jumping from -4.1% to 0.5%.




Holyoke Mall experienced the same trend after it opened a Planet fitness in January 2020. The mall's year-over-year visits jumped from 1.36% in December to 22.58% in January with the gym opening. The resulting conclusion is that the value of gyms as mall tenants rests heavily on their ability to bring strength to time periods where there is normally a lull on a daily, weekly, and annual basis.

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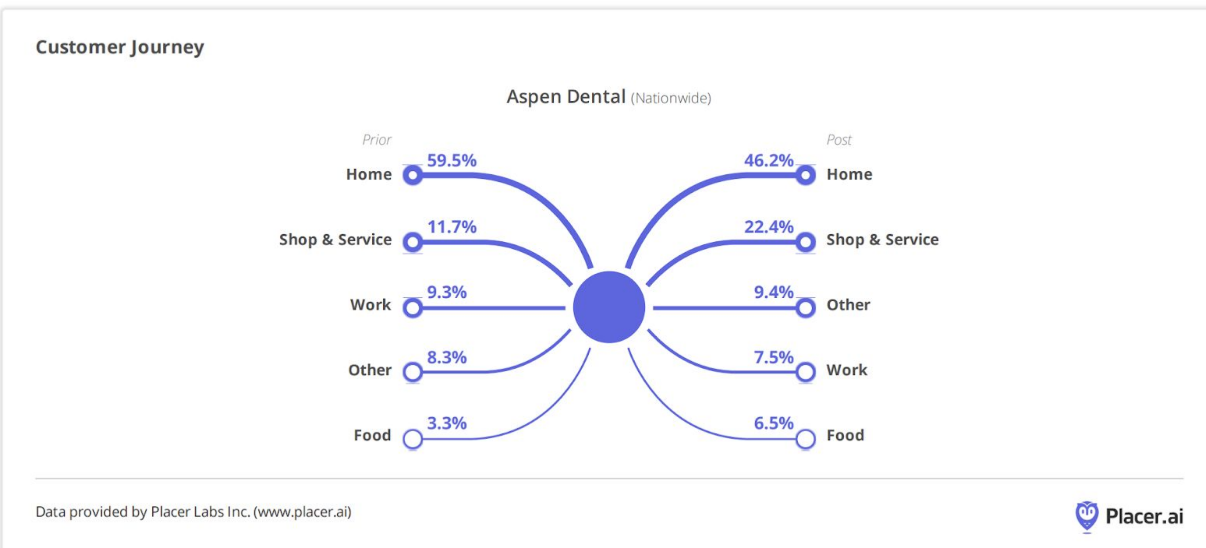
## Health Clinics

As the healthcare industry shifts from inpatient to outpatient care, many healthcare providers are looking to move into facilities located closer to patients. And with the rise of Minute Clinics and Health Hubs inside CVS stores and medical services inside Walmart locations, it is clear that health clinics will become an increasingly sought after tenant.

According to a report by JLL, health tenants are considered to be attractive tenants for landlords because they tend to have high credit ratings and sign longer leases than retailers. Owners also hope that when patients come for an appointment, they will stay around to grab lunch or visit a store - and with good reason.

Aspen Dental is one health chain that is strongly linked to shopping center and mall foot traffic. With clinics located either within an outdoor shopping center or adjacent to an indoor mall, the chain has a high cross-visitation rate with shopping venues. Examining the chain's fifteen top-performing clinics showed that an average of 4.8% of visitors visited the adjacent shopping center before arriving at Aspen Dental and that an average of 4.6% of them visited the adjacent mall after their appointment. Diving deeper into the chain's location data reveals that 11.7% of all Aspen Dental patients arrived at a clinic after visiting a shop and service venue, and that 22.4% continue to a shop and service venue.




But a health tenant's contribution to overall mall foot traffic is also based on similar compatibility shown by gyms. For example, Aspen Dental has two visiting peak hours, a



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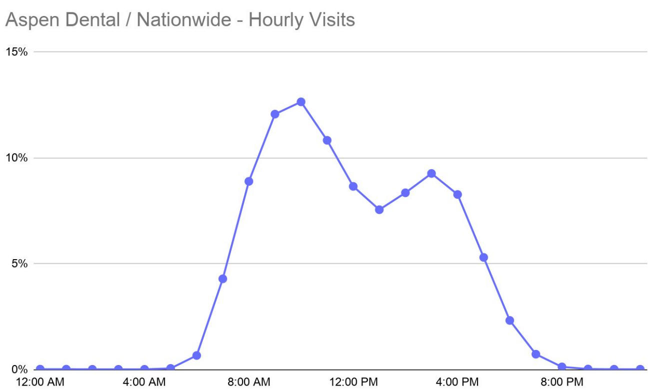
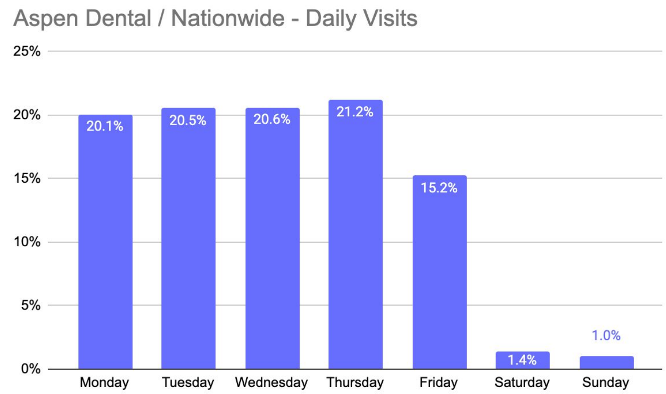
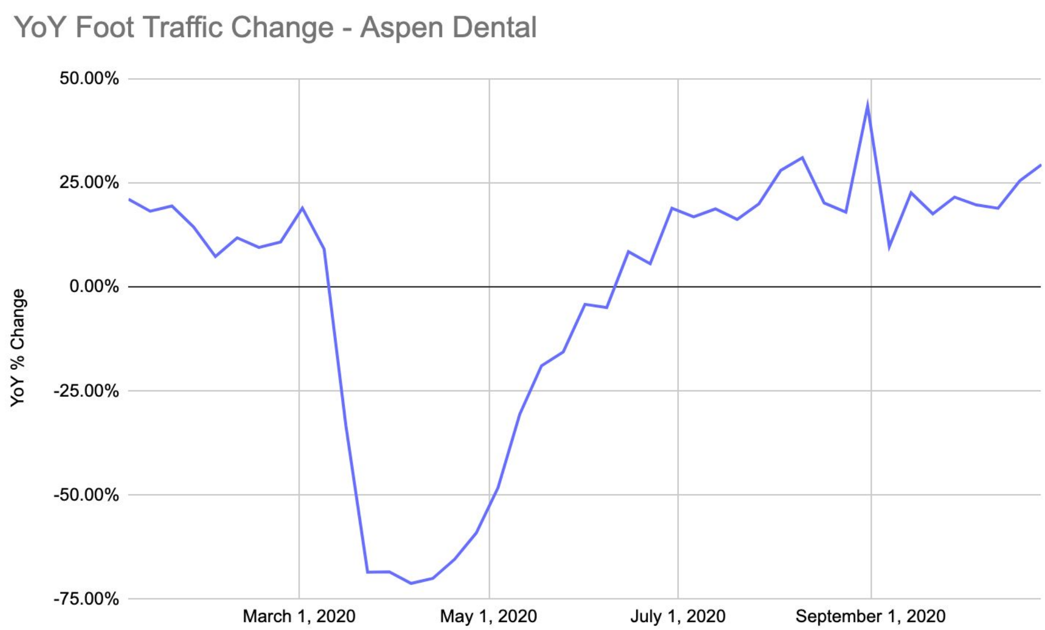
morning peak at 9-10 AM and a smaller afternoon peak at 3-5 PM, and is primarily oriented towards weekday visits.




Aspen Dental's year-over-year foot traffic performance reveals an impressive recovery, with the chain surpassing its pre-pandemic levels of year-over-year visits. This growing foot traffic strength combined with the ability to drive cross-shopping during off-peak hours could be a powerful mix for mall owners.

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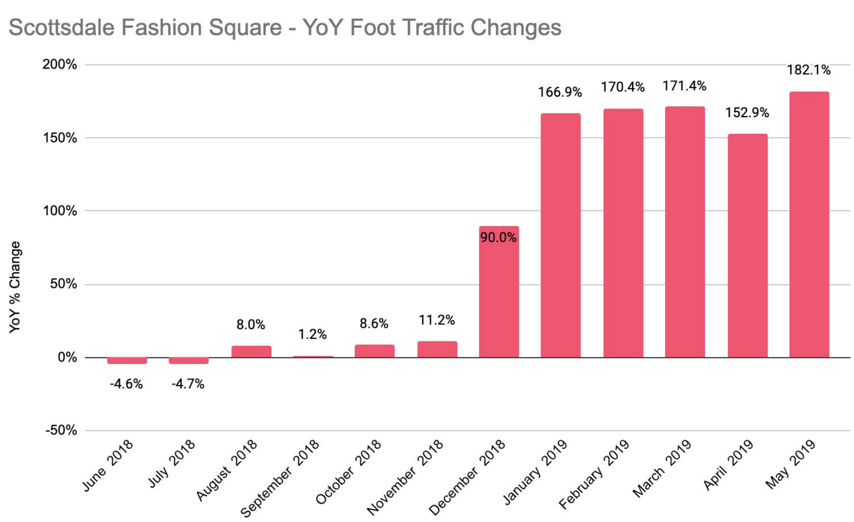
### Co-Working Spaces and Offices

As part of the realization that for many consumers, one of the keys to a successful shopping experience is proximity to work, many malls today are seeking to host workplaces. Whether by opening a coworking space, transforming a vacant department store into an office area, or developing office complexes nearby, owners can help guarantee continuous and recurring foot traffic. The workers benefit from easy access to amenities like dining, shopping, and personal services - and potentially different types of retailers as well.

Industrious is one of the first co-working space providers to jump on this wave. Industrious's first mall site launched in January 2019 in one of its most sought-after locations, Scottsdale Fashion Square. The Fashion Square had launched a renovated new luxury wing in November 2018, which resulted in a dramatic increase in visits during December. And with the opening of Industrious during the off-peak month of January, the mall's year-over-year foot traffic had nearly doubled from 90% in December to 166.9% the following month, remaining stable around that high number throughout 2019. And while a range of factors contributed to these huge leaps, there are strong indications that the core assets of a co-working tenant made a significant impact.




A mall co-working space can also affect customer loyalty rates by creating a recurring visit pattern. Workers need to eat every day, and the mall generally offers a variety of convenient dining options. In the six months after Industrious's opening, the percentage of visits by loyal customers who visited the mall at least ten times grew by over 11% from the six months before the opening. And the recurring visitor growth also indicates opportunities for other retail types. For example, while a Staples or CVS location may not



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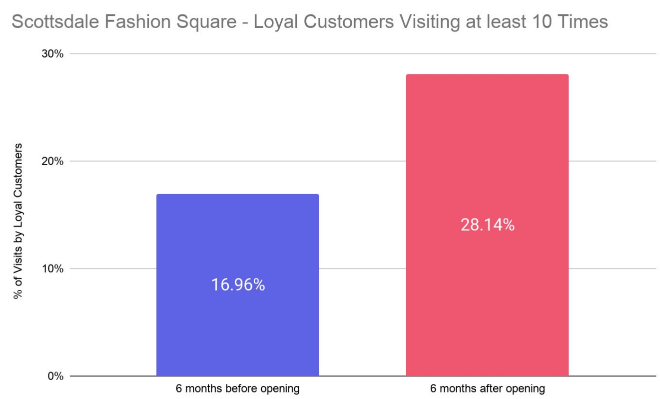
seem like an ideal fit for an indoor mall, because an office space is visited daily, that conception could change quickly, especially in malls with struggling retail components.




## 2. Micro-Everything Centers

As department stores close at record speed, mall owners are embracing the idea of leasing these vacant anchor store spaces to online retailers for use as fulfillment centers. Simon Property Group (SPG) and Amazon have recently discussed transforming closing anchor department stores into fulfillment centers.

But while the exponential growth of online sales makes this an attractive idea, significant downsides exist. Malls' foot traffic and cities' sales taxes could both decline. A more middle-ground approach could focus instead on dynamic, multi-purpose spaces that offer a combination of a physical store, fulfillment center, click-and-collect, and return centers. Essentially, working directly with retailers to use some of their space for micro-fulfillment could provide a powerful win-win.

As an example, California's Broadway Plaza, a central outdoor mall in the East Bay area, recently lost Neiman Marcus as a retail tenant. Instead of leasing the massive space to another stagnating department store or turning it into an e-commerce warehouse, Broadway Plaza could benefit from finding a tenant who would transform the vast space into an innovative micro-fulfillment center and store. A dominant omni-channel retailer would be able to capitalize on occupying such an enormous space in a central location and could use the space to accomplish multiple goals.

Allbirds, a direct-to-consumer brand seeking to expand offline, is a perfect example of such a retailer. Allbirds stores (shown on the map in pink and blue) have no trade area that overlaps with Broadway Plaza (shown on the map in green) and find a similar audience to



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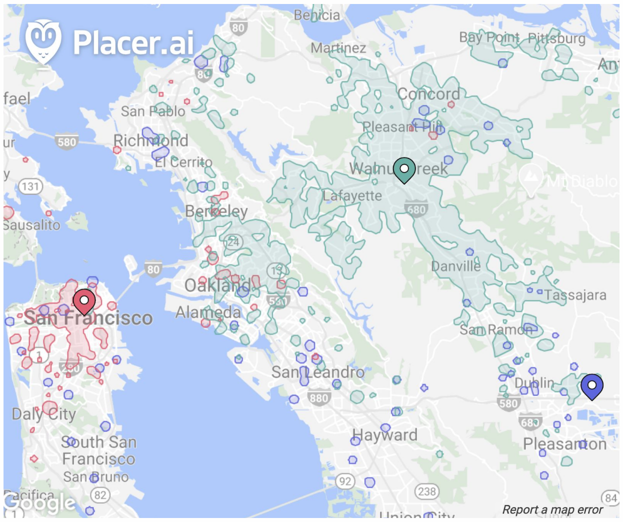
those at other locations. Yet, as opposed to just another Allbirds store, a micro-fulfillment component could expand reach while lowering the cost of last mile delivery and returns.




In this case, there is also a high correlation between the favorite retail chains of visitors of other Allbirds locations and Broadway Plaza's other tenants' consumers. Apart from Costco and Walgreens (a seven-minute and fifteen-minute drive from the mall, respectively), the Allbirds customers' ten favorite chains exist within the mall. A high co-tenancy fit means a likely, mutually benefitting increase in foot traffic to both Allbirds and the existing mall tenants.

Allbirds

| | Place | Customers |
|---|---|---|
| 1 | Starbucks | 19.1K (71%) |
| 2 | Target | 16.7K (62%) |
| 3 | Costco Wholesale | 13.5K (50.4%) |
| 4 | Safeway | 13.3K (49.5%) |
| 5 | Whole Foods Market | 12.1K (44.8%) |
| 6 | Trader Joe's | 11.8K (44%) |
| 7 | Walgreens | 11.5K (42.7%) |
| 8 | CVS | 8.3K (30.8%) |
| 9 | Macy's | 7.8K (28.9%) |
| 10 | Apple Store | 7.5K (27.7%) |

Allbirds's customer demographics are also highly correlated to the customer demographics of the existing mall tenants. Examining the closest Allbirds visitor demographic data



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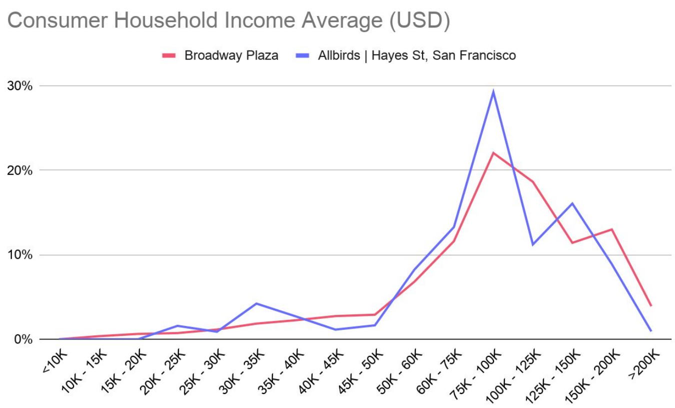
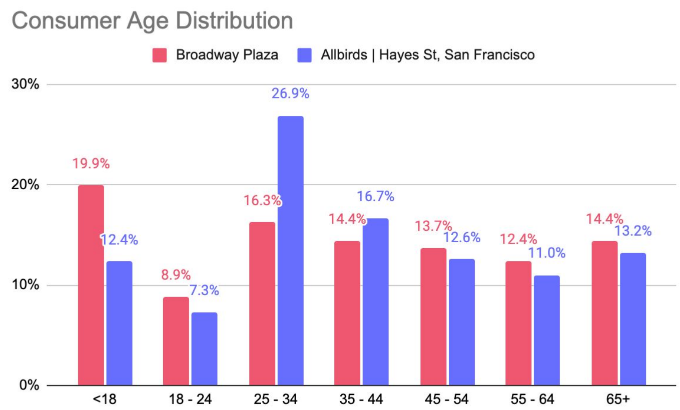
suggests that the average household income rates and age distribution are fairly similar to those of Broadway Plaza's visitor demographic data.




In sum, mall redevelopment and upgrade efforts may be better served if they begin to adjust the way they view space. While there is still huge importance to driving sales from a location, it does not necessarily require *all* the space. Offering micro fulfillment opportunities - including the logistics necessary to make it happen - could induce more product and DTC oriented companies to expand their offline presence as the mutual benefit of lowering costs while gaining store space could be especially valuable. Even more, it gives mall and shopping mall owners a greater ability to maximize each location as opposed to just using it for fulfillment alone.

## 3. On-Spot Pop-ups

Physical purchasing experiences and face-to-face encounters between brands and consumers will always be an important piece of the puzzle. And despite the rapid growth of online sales, e-commerce brands across sectors still seek to create and increase their physical presence.

But with the instability of shopping malls enhanced by the pandemic and a period of economic uncertainty lingering in the background, many small brands are hesitant to set up permanent shops.

Enter pop-up shops. Pop-up shops are the perfect solution for brands in need of a physical presence in turbulent times. They offer an easy, cost-effective, low-risk way to physically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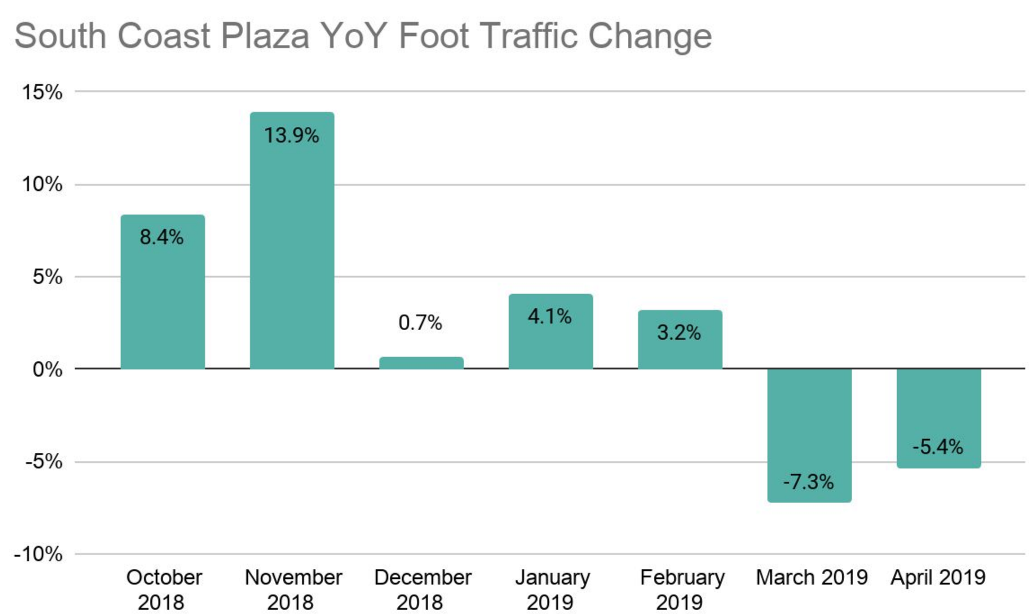
encounter customers and test the market. And it is something that malls can leverage to "own" within the constraints of their space.

Malls have also been looking to pop-up store solutions to fill vacant spaces and liven up the retail experience.  Short-term pop-up stores have been shown to boost foot traffic, attract millennial demographics, and increase overall property revenue in their host malls.

Kim Kardashian's beauty pop-up shop is a pop-up success story. Between December 4, 2018, and February 24, 2019, the beauty pop-up in California's South Coast Plaza mall attracted many visitors, with Kim herself making several appearances. January and February of 2019, which would typically experience a sharp post-holiday-season foot traffic decline, saw significant jumps in the mall's year-over-year foot traffic of 4.1% and 3.2%, respectively. With the pop-up's closure at the end of February, March and April experienced significant drops in year-over-year visits.




In addition to pop-up shops, designated pop-up focused spaces within malls are gaining popularity. Owned and operated by Macerich, BrandBox at Virginia's Tysons Corner Center is a pop-up focused space that targets online brands like Peloton, Nectar, Seletti, Chubbies and Gilly Hicks for short-term leases (~6-12 months). If the brick and mortar storefront is successful, BrandBox will work with the tenants to help them find a permanent spot in the mall.

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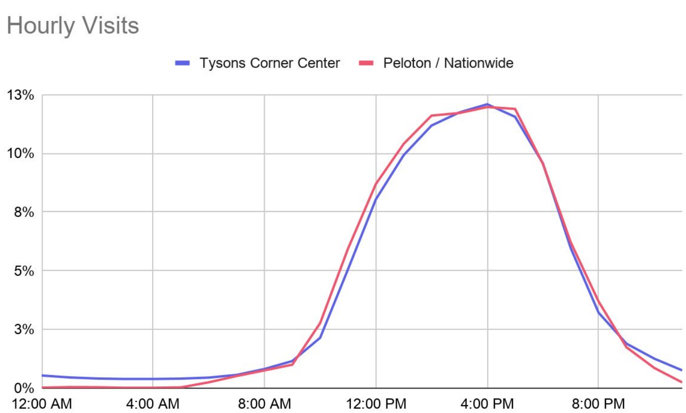
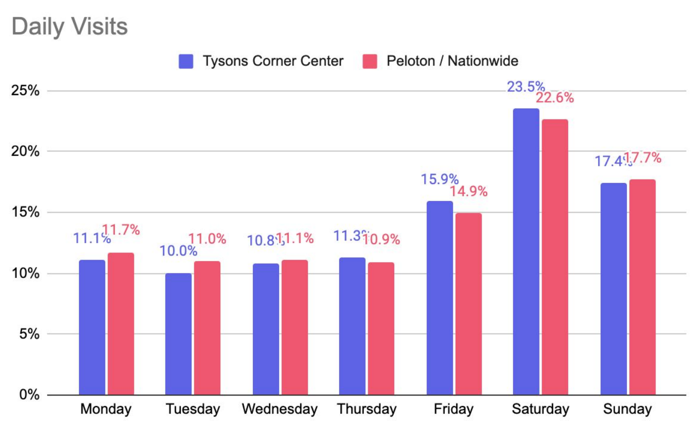
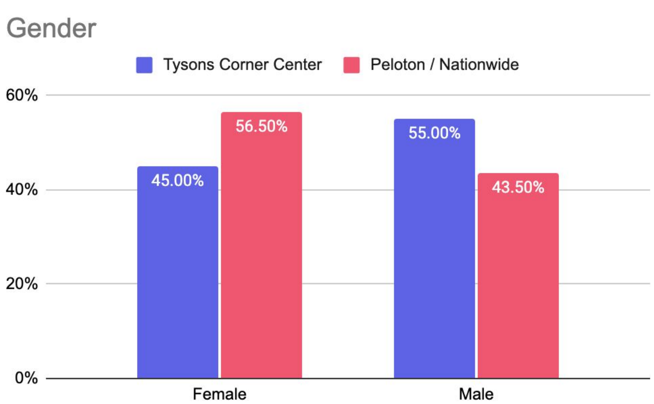
Which of these pop-up tenants are most likely to generate mall visits and stay as permanent residents? Accurate data comparison of mall and brand visiting patterns, as well as typical visitor profile can help answer that question.

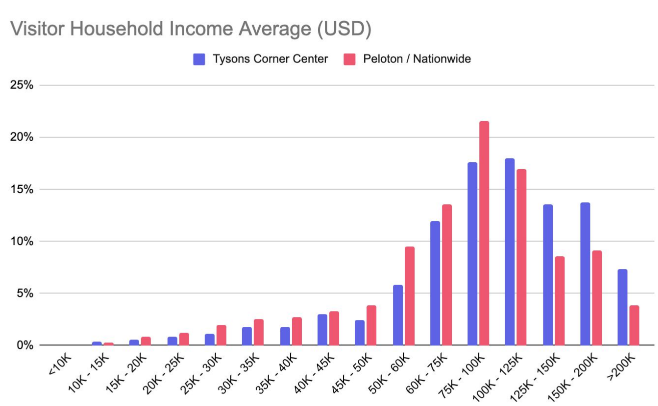
One of the pop-up showrooms at BrandBox is the fitness brand Peloton. A competitive analysis of Peloton and Tysons Corner Center from May through October of 2020 provided an indication on the likelihood of a successful match.  Tysons Corner Center visitors and Peloton consumers are closely aligned in terms of visiting patterns, with similar hourly and daily visiting preferences.




A demographic comparison of the mall and brand consumers showed that although visiting patterns may be similar, there are small differences in the typical customer persona. For example, 56% of Peloton's visitors were female, compared to only 45% female visitors at Tysons Corner Center. The mall also attracted a higher percentage of high-income visitors than Peloton. Awareness of the demographic differences between Peloton and its host mall's consumers could enable the Peloton pop-up showroom to adapt its marketing strategy to succeed.

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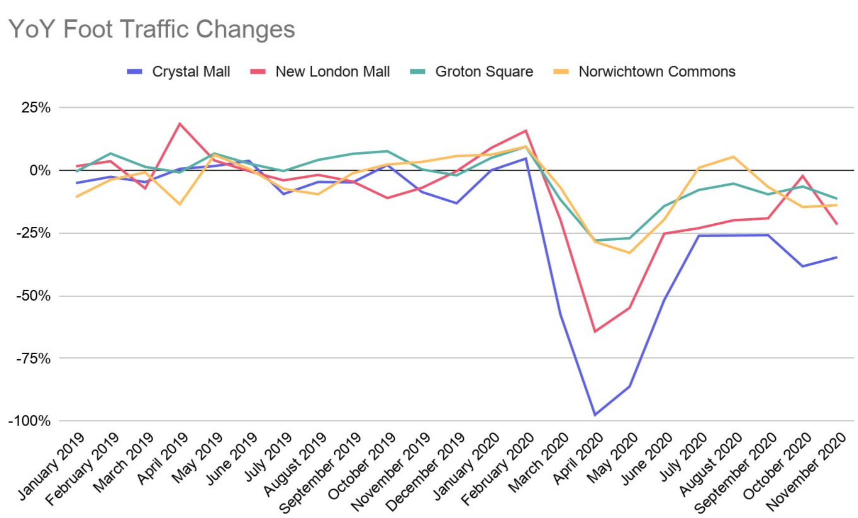
## Guiding the Decision

Simon Property Group (SPG), the largest U.S. retail real estate investment trust (REIT) and shopping center operator, recently announced it is relinquishing ownership of [four of its struggling shopping malls] that have a mortgage debt of ~$410 million. According to KBRA Credit Profile, the performance of the properties "has deteriorated significantly" since the mortgage debt originated, "substantiating SPG's decision to hand over the keys amid the weight of the coronavirus pandemic."

Would SPG be in this situation if it had redeveloped or redesigned these malls? And if so, when should they have made these changes? To find early need-to-redevelop signs and the most effective type of upgrade, we looked at the performance data of some of SPG's malls.

### Reading the Competitive Landscape on Time

The Crystal mall in Waterford, Connecticut is one of the four struggling Simon malls. The mall's continuous decline in year-over-year foot traffic began already in October 2019, when its year-over-year foot traffic rates began sinking below those of other competing malls in the area. By the time the pandemic arrived, the mall's performances were far behind its neighboring competitors. In October, visits to the mall were down nearly 40% of year-over-year, while the adjacent New London mall, Groton Square, and Norwichtown Common were down just 21%, 11%, and 13%, respectively.




Ongoing monitoring and benchmarking of mall performances is an effective way to alert mall owners in time of any need for changes.



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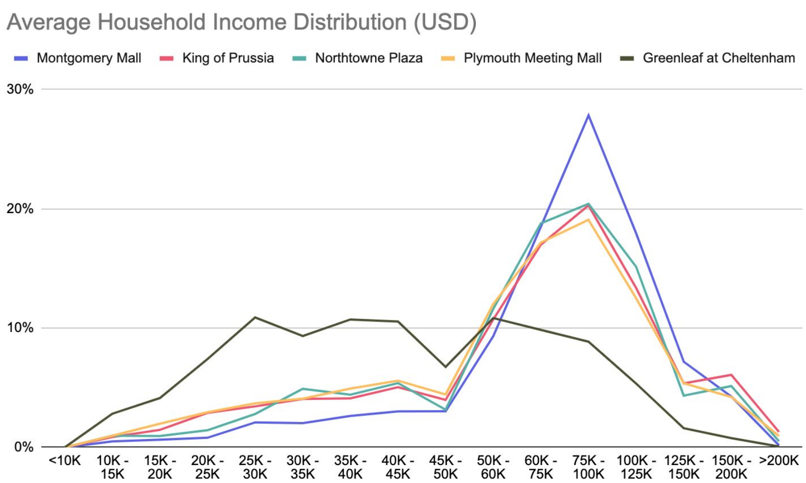
### Playing on Unique Competitive Advantages

But beyond early warnings, there are ways to guide the redevelopment process based on a deeper understanding of a location's true audience. The Montgomery Mall in North Wales, Pennsylvania is another mall that will no longer be receiving capital from SPG. Data on the household income of mall visitors between January through October 2019 reveals that Montgomery mall attracted the highest percentage of high-income shoppers compared to its four top ranked neighboring malls.




In response to this data, any redevelopment or upgrade plan that would have taken place should have included moving toward a tenant mix that would best fit the mall's high-income visitors. Redeveloping into a high-end mall would have enabled the mall to capitalize on its unique competitive strength.

### Align with the Trade Area

SPG also indicated it would engage in a "friendly foreclosure" of Southridge Mall in Milwaukee. According to Kroll Bond Rating Agency, Southridge has a 73% "in-line" occupancy rate, without taking into account two separately-owned department store anchors that have been vacant since 2018.

Southridge Mall's trade area (in purple) supports this low occupancy rate number. In 2019, the mall's trade area was already dominated by two neighboring competitors, Brookfield Square (in yellow) and Bayshore Town Center (in pink).



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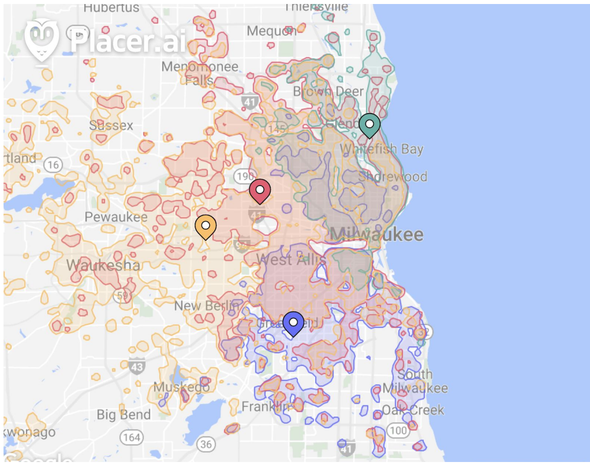


## Key Takeaways

To stay relevant and timely, many malls and shopping centers are being pushed to go through an identity shift. But those who will do so wisely and lead a smart data-driven redevelopment or upgrade process based on consumer behavior patterns and accurate industry trends will be far more likely to succeed. A data-driven redevelopment process should include at the least consideration of the following:

1. Out-of-the-box Tenant Selection - Instead of sticking to classic conceptions of what should and should not be in a mall, owners can start to get creative. The introduction of different tenant types - like fitness, health, and office - into the mall space can not only bring in successful and stable tenants but enable a reimagination of the mall experience. Many of these newer tenant types augment existing mall weaknesses empowering a stronger overall asset. But they also may have different needs and demands, and addressing these concerns will be a critical piece of driving value through this approach.

2. Micro-Everything Centers - The rise of ghost kitchens, dark stores and potential fulfillment centers in malls is being pushed by the struggles of former anchor tenants. Yet, fulfillment and retail do not need to battle head to head. Micro fulfillment offers a unique opportunity to enable brands to leverage a physical space for multiple purposes allowing them the omni-channel bliss of leveraging offline retail benefits while simultaneously reducing some of the biggest costs associated with eCommerce.



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3. On-Spot Pop-ups - Pop-up shops and focused pop-up spaces within malls have great potential for success. Especially given the dynamic and challenging retail climate in which they are operating, relevant, timely data can help both the pop-ups and their host malls make more informed, winning decisions. The ability to test relationships, formats, and more could create a valuable mechanism for deepening the relationship between retailers and mall and shopping center owners while allowing for smarter decisions in the longer term.

To redevelop or not to redevelop? Ongoing monitoring and benchmarking of mall performances can identify early warning signs of failure, and analysis of a mall's customer demographics can enable a mall to capitalize on its unique competitive strength.

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