

A Surprising Find in Retail Malls

B-Class properties could become strategically important to retailers.

By Erik Sherman

The general assumption in retail that's been building, part of the "retail apocalypse," as Placer.ai notes in a new report, is the oversupply of malls in the US. Something's got to give, and it will be the secondary tier of properties.

But a growing number of brands looking for space as the "safe" locations has opened a possibility that B-tier malls could potentially see a resurgence.

The view starts with an increased trend of business diversity in malls. Yes, major anchor stores faced a route. K-Mart, Sears, JC Penney, Macy's, Dillard's, and others have been paring back their appearance in malls.

"Yet, while many previously strong anchors were shutting their doors, a far more significant trend was emerging where retail-oriented centers and malls were embracing new tenant types," Placer.ai wrote. "From gyms to co-working spaces to medical practices, the growing presence of non-retail tenants has made a lasting and significant impact on the brick-and-mortar retail landscape."

There's a more expansive retail experience, greater traffic in what used to be off hours, and the opportunity for landlords to see new types of business ready to take up residence.

This trend has changed the dynamic of the desirability of mall space, especially at top-tier malls. With a broader array of brands looking to take space, there is greater competition for locations and many retailers won't get what they would have looked for.

"Alternatives include open-air lifestyle centers, downtown areas, and strip centers, as well as shop-in-shops and pop-ups," the report notes. "But there is also the very real potential for retailers to look at less popular malls for their next location – and the opportunity here is significant. Retailers that had struggled to stand out within a packed top-tier mall may find that their role in a lower-class mall is actually elevated, giving them a stronger position within the market and more sales. And if these malls shift their focus from competing with the regional supermalls to focusing on specific audiences or providing differentiated experiences, the potential symbiosis can be powerful."

That is a significant "if" on reflection. Not all malls will necessarily be in a position to achieve the shift, and even among those that could in theory, there will be many that fail. However, not all have to. Think of concepts like mixed developments with residential and retail, or destination specialty strip malls like collections of outlet stores. As Placer.ai notes, "if this shift does take place, it will prove that the magnitude to which we are in fact overmalled is far less than previously expected."