

Here's What's New at Malls as Brick-and-Mortar Retail Evolves Going Into 2023, the Industry's Discussing Apartments, Healthcare, Stores-in-Stores and Other Trends

By Linda Moss

The local mall is changing fast, along with consumer habits that were jolted in the pandemic, as traditional stores make room for nontraditional uses including apartments, warehouse clubs and self-storage spaces.

Adding different types of retail tenants to shopping venues is one way mall owners are trying to drive foot traffic as e-commerce grabs a bigger share of sales. And landlords are seeing more of their tenants try out new concepts to cut costs and drive revenue, such as smaller stores and so-called stores-in-stores, where a specialty retailer opens an outpost in a traditional department store chain.

Industry executives laid out the way the mall is changing in interviews with CoStar News and at panels at this month's ICSC New York conference at the Javits Center in Manhattan. One area of discussion included one of the most visible changes after the pandemic-induced retail slowdown: mall landlords either resuming plans to redevelop their properties or announcing plans to do so.

The reimagining of these sites invariably includes the addition of multifamily housing and, in some cases, office and restaurant space. There's a housing shortage in some parts of the nation, such as New Jersey, and more apartments help fill that void. "Retail follows rooftops," and malls are adding "rooftops" to provide more customers for their centers, Kristin Mueller, JLL's president of retail property management, told CoStar News.

There numerous examples of malls being transformed into mixed-use complexes. Earlier this year, global mall landlord Unibail-Rodamco-Westfield announced it had nailed down a partner to work on a massive reimagining of its flagship Westfield Garden State Plaza in Paramus, New Jersey. That update will include the addition of hundreds of luxury apartment units.

And Unibail has similar plans in Chicago's suburbs at the Westfield Old Orchard mall in Skokie, Illinois. It will be demolishing a former Bloomingdale's site and replacing it with multifamily housing.

Tenant Curation

Traditionally, malls owners would put together somewhat cookie-cutter tenant rosters that included dozens of national chains, with large department stores as their anchors and a horde of specialty apparel, accessory and footwear sellers occupying the rest of the space. That approach doesn't cut it anymore in 2022 going into 2023, executives say.

Now, informed by data about their area's consumers, landlords are being more thoughtful about their tenant mixes, carefully curating them, looking for stores that will prompt frequent visits and will

cater to local tastes and preferences, Barrie Scardina, Northeast regional president and head of retail services in the Americas for Cushman & Wakefield, told CoStar News. That could mean executing leases with a boutique fitness chain, such as Orangetheory, a real estate category that's been booming.

And so-called medtail, which refers to doctor's offices for people or animals in a retail setting, is opening at shopping centers. In fact, veterinary hospitals, and even vet urgent care centers, are increasingly popping up at retail centers as pet ownership soars. IV drip centers are also debuting at shopping centers nationally. It's all a balancing act for owners of those properties when it comes to choosing tenants.

Mall landlords are now even welcoming grocery stores and warehouse clubs. Those tenants generate frequent foot traffic, unlike an apparel store, as people often shop for food every week. A BJ's Wholesale Club just opened at the Willowbrook Mall in Wayne, New Jersey, and the Stew Leonard's grocery chain has a flagship at Paramus Park mall in Paramus, New Jersey. They are both in spaces once occupied by Sears.

"A decade ago, I wouldn't have considered there would come a day when so many of our deals are food-related," Mike Conway, vice president of national accounts and retail partnerships at retail landlord Phillips Edison & Co., said in a statement. "The name of the game going into 2023 is really about four key categories — grocery, service, restaurant and health/fitness."

Traditional 'Anchors Away'

The demise of department store chains such as Sears and Lord & Taylor has prompted mall owners to take another look at what retailers they want as anchors. In some cases, former anchor space isn't be filled by retailers at all but is being transformed for new uses. Apartments are being built in such space sometimes, or office or research and development facilities are being be created there instead. For example, HBC, owner of the Hudson's Bay and Saks Fifth Avenue retail chains, is turning three former Lord & Taylor stores in the Boston area into state-of-the-art space for life science, a commercial real estate sector that has seen strong demand in that tech cluster.

"We're putting more variety in the anchors," Mueller said.

During a presentation at ICSC's conference, one speaker raised a provocative question: Is the idea of a traditional mall anchor tenant obsolete?

"Anchors aweigh or anchors away?" Nina Kampler, president of Retail Advisory Group, asked show attendees. She questioned whether malls even need a so-called anchor anymore.

"If the traditional department store anchor is not the anchor, who is the anchor and do we need an anchor?" Kampler said. "And is Apple, with perhaps the most productive per-square-footage in any center ... where you have no outside egress and you have to walk through the mall to get to that door ... is that not our new anchor?"

Her point was supported by recent events at American Dream, the megamall in East Rutherford, New Jersey. An Apple store bowed at that property in early December, and hundreds of people lined up to get a first look at the new store. A video shows Apple employees giving high-fives to shoppers and cheering as they came in.

Digital Retailers Get Physical

Somewhat ironically, digitally native retailers, those that began as solely online businesses, have evolved into a booming tenant category for malls. Firms such as e-commerce juggernaut Amazon, Warby Parker, UNTUCKit, Allbirds and singer-entrepreneur Rihanna's lingerie company, Savage X Fenty, have opened brick-and-mortar locations in malls where they are often in the company of traditional tenants such as Macy's.

Online retailers have found that having what amounts to a billboard at a mall, an actual store, is a smart way to develop a relationship with consumers and drive sales.

"There's this idea of empowered physical retail that I think we're seeing," Ethan Chernofsky, vice president of marketing at traffic analytics firm Placer.ai, said during an ICSC panel. "It's more brands recognizing that there's more value than just the products they sell. It's the eyeballs you gain. It's the ability to try something on. The CEO of Allbirds said [there's] 150% larger basket [purchase] size online when someone visits a store first. And that's a crazy statistic."

Simon Property Group, the nation's largest mall owner, has acknowledged how important digital companies are as potential tenants. Simon recently struck a deal to allow businesses being shepherded by Leap, a startup that helps online brands launch physical spaces, to open locations at some of its mall properties.

"It is our hope that by working together we will continue to both incubate brands through the Leap platform as well as help them expand throughout our portfolio where they can reach hundreds of millions of their target consumers annually," Zachary Beloff, Simon's vice president of leasing, said in a statement when the deal was announced in November.

Sometimes Smaller Is Better

A wide variety of retailers are opening up smaller-format stores, and each day a new company seems to be added to that list. For some of them, the forays are an attempt to have a brick-and-mortar presence outside of large malls and get closer to customers efficiently and economically. The small stores allow a retailer to put a stake in an area where large square footage may not be available, such as urban downtown business districts, and without having to fork over rent for a large location.

Macy's has gone small with two of its chains, its flagship brand and Bloomingdale's. The company is continuing to roll out off-mall Market By Macy's stores, in at least one case closing one of its mall anchors and replacing it with the new small-format option at another site. And Macy's this year debuted several Bloomie's, the smaller-format version of its luxury chain.

The roster of retailers launching or piloting smaller-format stores also includes Target, BJ's Wholesale Club, Ulta Beauty, Burlington Stores, Nordstrom, Rite Aid and Kohl's.

Planting Stores Within Stores

Nowadays visitors to malls and shopping centers are sometimes essentially getting two retailers at once when they enter a store: It's the increasingly popular store-in-store concept. Usually a larger chain allows a smaller specialty retailer to have branded area, a little shop, that sells its merchandise within the host's stores.

Macy's has really pushed into this strategy aggressively. Claire's, a chain that sells fashion accessories to tweens and teens, recently announced it was opening outposts at about 20 Macy's flagships. And Macy's has revitalized Toy R Us by opening store-in-store sites for the toy seller across its department store footprint.

"There's a lot more optionality to a retailer in the way they want to reach customers, and a lot more channels for them to do so," Chernofsky said during an ICSC panel where store-in-store initiatives were discussed.

Macy's isn't the only one involved in these partnerships with other retailers.

Struggling Kohl's has reported great success with the Sephora beauty shops that have opened in its department stores. The Sephora outposts are bringing new and younger customers to Kohl's, and they often stop to buy items other than makeup before they leave, according to company officials. Retailers such as Sephora benefit from the arrangement because they are able to expand their physical footprint and reach more shoppers without the expense and trouble of leasing their own additional stores.

Another beauty brand, Ulta Beauty, has rolled out store-in-store locations at Target locations.