



The H&amp;M flagship store in central New York

Ask a retail developer or pundit what's happening in the Americas and you'll be lucky to get the same answer twice. John Ryan looks at the sweet spots in a retail market that remains uneven

## THE AMERICAS

## A market of two halves

**T**HINK retail, think North America — specifically, the US — and it's probable that your thoughts will turn to shopping centres. The received view is that most of the retail action in the region takes place in malls rather than high streets and, to a large degree, this is correct.

According to Cushman & Wakefield, the current stock of mall space in the US stands at 618 million sq m (or 35,590 malls) and this number is expected to increase to a mall GLA of 640 million sq m when everything in the current pipeline is built, with the number of malls reaching 38,000. Even for a nation of 313 million people (according to the 2012 census), this sounds a lot. So it is perhaps no surprise that the [www.deadmalls.com](http://www.deadmalls.com) website, which charts the US malls that have gone into terminal decline, is pretty well populated. There is a sense that, for every

new 'super regional' centre that rises out of the ground, several smaller schemes will be gradually making their way back into it.

Another way of putting it, according to Sean Walters, vice-president of mills leasing at Toronto-based Ivanhoe

**"We've developed a metric we call the barbell of prosperity — the top and bottom are doing well, but the middle is still very squeezed"**

**Matthew Winn**  
Cushman & Wakefield

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Cambridge, is that there are 2.2 sq m of retail space for every US citizen. Walters contrasts this with Canada, where the figure currently stands at 1.4 sq m per head, although this number, too, is set to grow.

The obvious question, therefore, is whether the growth that is anticipated over the next three years is sustainable in the US? Can things keep going? Or is it going to be a case of increased asset management and redevelopment for those in the business of owning and leasing US retail space?

Matthew Winn, global retail chief operating officer at Cushman & Wakefield, brings the problem into focus: "We've developed a metric we call the barbell of prosperity. If you look at it this way, the top and bottom are doing well, but the middle is still very squeezed. It looks like the US economy is now firing on all cylinders, but the retail spend hasn't actually changed."

Despite the problems that this might seem to pose, Winn says that there are "certainly people who are making substantial investments in class-B malls".

Like others, Winn points to the rise of the super-regional mall and says that, while this trend might seem to be bad news for the owners of smaller developments, there is currently a move among the latter towards repurposing the tenant mix to combat this. Practically, this means that many of the small and medium malls in the US — and there are more than 34,000 of these, ranging in size from just under 5,000 sq m up to just over 40,000 sq m — are the subject of extensive remodelling and upgrading.

Atlanta-based Alan Barocas, senior executive vice-president at General Growth Properties, elaborates: "The landlord community, just like the retail community, is continuing to look at upgrading assets. There is not a lot of new mall building going on. Everybody is looking at how they can improve their assets." Barocas says that, while there are a number of different strands as far as improvement of this kind is concerned, there is one central preoccupation: "It's about the customer experience. All of us are looking at food, for example, because we think that food is not something that Amazon, among others, can provide. We're also putting medical, health-related offerings in centres. We want to establish the malls as a social focal point as much as a place to go shopping."

And part of the upgrade process is about taking second-tier centres and making them



General Growth Properties' La Cantera shopping centre in Texas

**"We're constantly looking at our B+ centres and asking what we can do to turn them into As"**

**Alan Barocas**  
 General Growth Properties

premier league, Barocas adds: "We're constantly looking at our B+ centres and asking what we can do to turn them into As."

There are, of course new malls appearing and there are areas of strength across the US and Canada. Chris Conlon is executive vice-president and chief operating officer of the Acadia Realty Trust, which owns and operates a number of urban and suburban malls and strip developments in the eastern half of the US. "There has been a dramatic separation between A malls, and B and C malls," he says. "Malls with sales in excess of \$600 per sq ft [A malls] are performing very well. Sales growth is a little disappointing, but rental growth is strong."

Worth noting, too, is the fact that "occupancy rates are as high as they have ever been in class-A properties", says John Ragland, senior director of global real estate at TIAA-CREF.

He adds: "Demand is high in spite of plodding sales. Rent gains continue in prime properties."

Conlan highlights the "lingering malaise around Sears and JC Penney [both frequently located in B and C malls]. JC Penney seems to have stabilised, but Sears is another story. The B and C malls are at risk of a dark period for a long time. I do think there will continue to be mall extinction."

Amid the conflicting views on the outlook for the US retail panorama, there is a school of thought that sees urban regeneration and the arrival of more foreign retailers in these locations as a coming trend. Conlan says this is an area in which Acadia has been seeing strong growth and that, in cities such as Chicago, New York, Miami and Santa Monica, there has been a conspicuous flight to quality. Arcadia, H&M, Zara, Uniqlo and soon Primark are among the expanding foreign fashion entrants, while J Crew, Gap, Footlocker, Forever 21, Abercrombie & Fitch and Williams Sonoma are among those exporting their offer to Europe and Asia.

In Canada, the development story is a little more sanguine. Ivanhoe Cambridge's Walters observes that, while there has been some weakness in eastern Canada and that the "smaller malls have been hit hard", there are "pockets of strength", particularly in Alberta and British Columbia in the west. And like the

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US, it is in the super-regional malls where the bulk of the action is taking place.

Walters says that, with 150 super-regional malls in Canada against 1,500 in the US, there is considerable room for expansion in this area. He also points to the outlet sector as being particularly robust: "We're injecting over \$1bn into The Oakridge Centre [an outlet scheme] in Vancouver," he adds.

In the US, while new schemes are thin on the ground, some of the bigger developments in the pipeline include Howard Hughes' 157,000 sq m Downtown Summerlin super-regional mall in Las Vegas, slated to open this October, and Westfield's World Trade Center urban mall, which will welcome its first shoppers in 2015. Also significant is Taubman's 78,500 sq m University Town Centre mall in Sarasota, Florida. Like the Las Vegas mall, this opens its doors in October. Simon Property remains active, with three outlet centres opening — two in Canada and the other in the US. In all the company has 32 developments or refurbishments under way across the US, Canada, Mexico, China and Japan, plus stakes in European developers Klepierre and McArthurGlen.

South of the border, Sonae Sierra is expanding and refurbishing Franca Shopping in Sao Paulo, Brazil, scheduled to complete in the first quarter of 2015. Meanwhile, Cushman &

Crossiron Mills: Ivanhoe Cambridge is focusing on large regional malls



Wakefield's Winn says that Mexico still has potential. "As the US has recovered, a lot of investment has been going into Mexico," he says. Perhaps, as ever, North America should be regarded as a series of different markets rather than any kind of homogenous entity. Greg Maloney, CEO and president of JLL's Americas Retail Group, sums it up: "Since 2005/2006, we've really looked at areas in the US and not so much across the country, mainly because different areas have been affected differently by the recession."

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**John Ragland**  
TIAA-CREF

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