A Tale of Two Premium Malls Alive and Thriving

It was the best of times, it was the worst of times...

DEBORAH WEINSWIG
EXECUTIVE DIRECTOR-HEAD, GLOBAL RETAIL RESEARCH AND INTELLIGENCE
FUNG BUSINESS INTELLIGENCE CENTRE
DEBORAHWEINSWIG@FUNG1937.COM 646.839.7017

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"Within 10 to 15 years, the typical US mall, unless it is completely reinvented, will be a historical anachronism." Rick Caruso, CEO—Caruso Associates, in his keynote speech at the National Retail Federation Annual Convention, January 2014

Doomsday stories about the American mall have become popular fodder for the press these days. Even some of the industry's prominent voices have joined the chorus, as was most famously exemplified by Rick Caruso—owner of two of the world's largest and most productive retail centers —in his provocative remarks at the National Retail Federation's annual convention this year.

Indeed, the shopping-center industry is facing challenges. In the wake of the Great Recession and the insurgence of online retailing, there are half as many malls in the US today than there were 20 years ago. Though mall vacancies have eased from 2011 peaks of 9.4%, they remain elevated, averaging 7.9% as of the end of June 2014, according to Reis. Sales per square foot (SPSF) have been significantly lagging overall US retail sales growth for the past several years.

But these grim statistics don't tell the whole story. In suburbs across America, a large cohort of so-called hub or super-regional malls has not only weathered the post-crisis slump in consumer spending, but is now thriving. These mammoth centers (measuring 800,000 sq. ft. or more) comprise roughly 11% of the total US shopping-center gross leasable area (GLA), but they represent a substantial portion of the industry's profitability. In 1Q 2014, super-regional malls posted net operating income (NOI) of $7.39 per sq. ft., well ahead of the industry average of $4.38 and a record YoY gain of more than 33% and far outpacing the 10% increase for the combined mall sector, according to the ICSC. Their success offers useful lessons for the rest of the industry.

GOING ON TOUR

To check out this phenomenon for ourselves, the FBIC Global team recently visited two of the industry's most prosperous, super-sized malls. On October 1, we joined a group of investors on a tour of the Willowbrook Mall (owned by General Growth Properties), a bi-level super-regional shopping center in Wayne, New Jersey, as part of JP Morgan's *Worlds Collide* Retail Industry Workshop. Our second trip—to Taubman's Westfarms Mall, located in Farmington, Connecticut, on Columbus Day weekend—gave us a perspective on the shopping scene outside of the New York City metropolitan area.

Willowbrook and Westfarms are huge, clocking in at 1.5 million and 1.3 million GLA, respectively. Willowbrook's occupancy is close to 97.5% and, according to Gil Bankston, its general manager, retail sales currently stand at $750 SPSF. That's well above the $563 average for GGP's 120-mall portfolio[1]. Westfarms is part of Taubman's 27-center portfolio, which sports the industry-leading retail sales, at $707 SPSF ($806 post the sale of seven malls, expected to close in 4Q)[1]. We estimate that Westfarms' occupancy is at least as high as the Taubman portfolio average of 91.6%. The retail sales performance at both malls exceeds the national average of $469, as well as the $538 average for malls in the Northeast[2].

So what are these two malls doing right? It's all about great location and critical mass. Both are upscale shopping destinations benefiting from massive trading areas of up to 25 miles in affluent communities. Annual household income in Willowbrook's surrounding community averages $94,000; its $84,000 for Westfarms.

More important, however, both malls have fully capitalized on their demographic advantages by assembling a market-appropriate roster of retailers and brands that appeal to a diversity of customers across age, income and price points. Each strives to achieve a balance between luxury and value, the two segments of the retailing world that have experienced the greatest comeback since the recession. Both centers have also adapted to shifting customer demands, by embracing new technologies and investing in creative ways to enhance the customer experience through hospitality, differentiated customer service and by transforming their properties into entertainment destinations. In doing so, they have found a new raison d'etre.

Anchors Bloomingdale's, Lord & Taylor and Macy's set the tone at Willowbrook. Jewelry, heath-related products and accessories are among the three best-performing merchandise categories, and 70% of shoppers who visit the mall buy something. According to Bankston, the mall's best-performing stores include a range of specialty retailers aimed at attracting the millennial shopper as well as a strong lineup of popular fast-fashion retailers.

The Westfarms mall draws from some of New England's wealthiest neighborhoods, including Avon, Farmington, Simsbury and West Hartford. It, too, has amassed a solid cross-section of Americana retailing, with brands ranging from Louis Vuitton and Tiffany to Forever 21 and H&M, offering something for every shopper in every price range. The center is anchored by JC Penney, Lord & Taylor, two Macy's (Women's and Men's and Furniture Gallery) and Nordstrom, and more than 160 stores on two levels. Westfarms has added a number of new tenants in the last two years including Athleta, Kiehl's, Forever 21, Lego, Lush, Microsoft, Spanx, Tommy Bahama and Tory Burch. Recent closings include Cole Haan, Abercrombie & Fitch's women's intimates concept Gilly Hicks, Nike Running and Restoration Hardware. In addition, 77 kids by American Eagle has been rebranded, as RUUM American Kid's Wear and remains a tenant.

THE APPLE CACHET

Both Willowbrook and Westfarms feature an Apple Store, one of the biggest sales-generators in the retail universe and another way they stay relevant with younger consumers. Emarketer estimates that the typical Apple Stores generates SPSF of $4,551, surpassing most other specialty retailers by a wide margin. Interestingly, however, GGP reports that, across all of its malls, only 1%-2% of Apple customers go on to shop elsewhere in the mall the same visit, versus a cross-sales rate of more than 20% for popular fast-fashion retailers. Not an adjacency any fellow retailer would want!

Newcomers such as activewear brand Athleta (opened in August), Japanese fashion retailer Uniqlo (unveiled in September) and Footlocker's Six:02 format add upscale, high-tech appeal. Even today, tenants wanting to get into the mall often have to wait until a spot becomes available. Willowbrook's waiting list includes Garage, Lululemon and Tommy Bas.

True to form, on our Columbus Day weekend visit, the Apple store at Westfarms was packed with shoppers seeking the new iPhone 6, and Victoria's Secret was a close second. Another retailer enjoying heavy store traffic (albeit it was a narrow postage stamp of a store) was Lego. Put technology, sex and toys together, and what do they all have in common? FUN! That's the secret sauce that retailers need to be providing in a society that's frequently criticized for being overly materialistic. It's also the key ingredient of the necessary "mall reinvention" that Caruso referred to in his keynote speech.

KEEPING UP APPEARANCES

And these two malls are not resting on their laurels. To remain one of the three most-profitable malls in New Jersey area, GGP is planning a $25-$32 million remodeling and expansion for Willowbrook, which will include adding to the parking lot (which currently has 8,000 parking spaces) to make it more efficient and driver-friendly. Likewise, the 40-year-old Westfarm shopping center is undergoing a multi-million dollar facelift, which includes numerous seating clusters throughout the center along with new glass elevators, landscaping and lighting to create a more upscale look.

PRIMED FOR THE HOLIDAYS

Given the affluent communities they serve and their well-rounded mix of luxury and moderate-priced retail offerings, premium malls like Willowbrook and Westfarms are in the sweet spot as we enter the holiday season. A new survey conducted by Time Inc. and YouGov.com suggests that spending will be robust this year, with much of the gains expected to come from consumers the higher income brackets. Families in the top percentile by annual household income expect to spend an average of $1,920 this year, up 8% YoY. Families with household income of $125,000-$150,000 said that they planned to spend 32% more, and the one-percenters ($450,000 or more), an additional 29%.

[1] *Reported as of June 30, 2014. Exclude all anchors, temporary tenants and 10,000-plus sq. ft. tenants.*

[2] *International Council of Shopping Centers, as of August 30, 2014.*