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Malls make deals to fill vacancies

By Jennifer Davies
STAFF WRITER

As shoppers have cut back, retailers have followed right behind, driving up vacancy rates at shopping centers and malls throughout the county.

So regional malls — once home to only the most well-known national chains — are getting creative, luring local mom-and-pop stores. Other shopping centers are offering short-term leases and slicing and dicing spaces, hoping to appeal to stores craving smaller digs.

MALLS

CONTINUED FROM A1

'People are ready to make deals,' broker says

retail vacancy rate was 5.3 percent, up from 3.7 percent in 2008 and 3.1 percent in 2007, according to Co-star, which tracks retail real estate across the country. Several local real estate experts say vacancies are probably even higher, at between 6 percent and 7 percent.

Sang Park, owner of Pink Zone, a local chain selling affordable, trendy women's apparel, has been a beneficiary of the new world order.

In business for 10 years, Park had never thought about expanding to one of San Diego's regional malls. He figured he couldn't afford it.

Last year, however, he opened up three stores at local Westfield malls after he got a steep break on rent.



Premium space at malls such as Westfield Parkway Plaza is now a relative bargain for stores such as Pink Zone. David Brooks / U-T

"The number of retailers looking and the amount of space they are looking for is down, so it's putting pressure on malls," said George Whalin, president of Re-

tail Management Consultants in Carlsbad.

At the end of 2009, San Diego's

SEE Malls, A6

"I got a deal," he said. "It was a hard offer to refuse."

James Dion, president of Dionco Inc., a retail consulting firm in Chicago, said Park's experience is not unique. In the past, malls were worried about small, local retailers being able to pay their bills. Now, any tenant is a good tenant.

"Three years ago leasing agents would throw that independent guy out of their office. Now they are actively pursuing him. They are looking for live bodies," Dion said.

The change is for the better, Dion added. Large malls in the boom years were interchangeable, with each having "the same old Victoria's Secret and Bath & Body Works."

Now, they are having to put in new amenities. Westfield, for instance, has teeth-whitening centers at two of its locations and brow-threading, an ancient form of eyebrow plucking from India, at six of its seven locations. Shopping centers are also having to chop up their store spaces as retailers scale back their merchandise to help boost profitability.

When the economy was humming along, retailers signed up for huge spaces and loaded it with inventory.

"Bigger was better, and to be competitive you had to get more market share," Dion said.

But to make larger stores profitable, sales volume must be huge. If the economy hiccups, let alone heaves like it did last year, a 12,000-square-foot store stocked to the gills no longer makes sense.

The result is that sales per square foot, an important gauge of a retailer's performance, has plummeted. Dion estimated that in 2005, sales per square foot at high-traffic malls was about \$500. Now, he said that number is below \$400.

Whalin said stores have pared down their offerings because they no longer have the luxury to load up on different styles and assume consumers will like them.

"Consumers just aren't buying as much," Whalin said. "Retailers are trying to get better at what is and isn't going to sell."

Ann Taylor, for example, moved out of its large, prominent spot on the first floor at Fashion Valley mall to a much smaller storefront upstairs near Nordstrom. The nationwide women's apparel chain has struggled mightily during the recession, leading it to shutter locations and downscale others. Its annual revenue fell from \$2.4 billion in 2007 to \$1.8 billion in 2009.

Mike Clark, a retail broker at CassidyTurleyBRE Commercial, said it isn't just national retailers that are looking for less space, local businesses are, too. He said former Blockbuster video stores, which were about 2,500 square feet, are being split in thirds — attracting businesses such as quick-serve restaurants, nail salons and small retail shops.

The higher vacancy rates have also dropped rents, Clark said. He estimated that retail rents are down about 25 percent for desirable locations and as much as 50 percent for off-the-beaten-path properties.

Even though San Diego is struggling with excess inventory and lower rents, it is still better off than many other markets. In Phoenix and Las Vegas, developers overbuilt because of the sprawling topography. San Diego County, which is confined by Mexico, Camp Pendleton and the ocean, has always had a tight market for retail real estate.

Don Moser, partner at Retail Insite, a commercial real estate firm specializing in retail, said the big-box stores vacated by the bankruptcies of Linen 'n Things, Circuit City and Mervyn's are beginning to fill. Some are being taken over by Best Buy, Kohl's or TJ Maxx while others have been divided to accommodate multiple tenants.

In February, chain-store sales

VACANCY BY THE NUMBERS

2009 (fourth quarter): 5.3 percent

2008 (fourth quarter): 3.7 percent

2007 (fourth quarter): 3.1 percent

Source: Co-star

rose 3.7 percent — the best showing since November 2007. Clark agreed that the retail market has picked up in the past couple of months as landlords and tenants have become more aggressive.

"People are ready to make deals," Clark said. "There isn't a big discrepancy between what a landlord wants and what a tenant is willing to pay anymore."



The owner of local clothing chain Pink Zone said he got a "hard offer to refuse" at three Westfield malls. *David Brooks/U-T*