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Retail Strategies Should Balance with Long-Term Implications

David Greensfelder recently weighed in on how retail landlords can remain competitive, repositioning strategies, and public official and resident concerns about how failing malls are positioned for reuse.

By Lisa Brown | September 21, 2020

SAN FRANCISCO—E-commerce hubs with supply constraints such as New York, Boston, Los Angeles, San Francisco and South Florida stand out with limited supply risks. Those cities will remain attractive for e-commerce retailers in the long term due to an outsized buying power, according to CoStar.

Clearly, e-commerce has overshadowed the retail sector during the stay at home period. But what can landlords of physical space do to weather this pandemic and economic downturn?

David Greensfelder, founder and managing principal of Greensfelder Commercial, recently weighed in on how retail landlords can remain competitive, repositioning strategies, public official concerns about change of uses for malls and resident concerns about how failing malls are positioned for reuse.

GlobeSt.com: In the current economic climate, what strategies should retail landlords employ to fill vacancy and remain vibrant?

Greensfelder: It is an appropriate strategic planning time for everyone, regardless of property type or location and strategies, to address immediate concerns, which need to be balanced with the long-term implications of those decisions. Because of COVID-19, we are in the midst of seeing 10 years of retail evolution consolidated into a nine- to 12-month period. That evolution includes some retailers going under, others recalibrating brick-and-mortar strategies, expansion of buy online pickup in store (BOPIS) options and development of new platforms like TruLocal.com. Owners of the best projects in the best locations should use today's environment as an opportunity to strategically reposition a project or upgrade tenant mix. Owners of anything else should be thinking strategically about how properties should best evolve in an environment where fewer retailers occupying less space will congregate in the most favorable locations. Retail projects, the most location-sensitive of all land use types, are generally well located with superior access and visibility. Their generally excellent locations bode well for

conversion to other uses when called for. It is important for owners to understand which use or mix of uses are most appropriate, to create a strategic plan and proforma for achieving that mix, and to evaluate approach and required approvals.

GlobeSt.com: Why isn't turning vacant big-box retail into distribution facilities the answer to stabilizing a property?

Greensfelder: There have been a lot of stories in the news about Amazon and others backfilling dark former big-box retail stores like Sears or J.C. Penney stores in regional malls. From Amazon's perspective, this strategy solves a major competitive disadvantage it faces as compared with Target or Walmart which have extensive store networks to give them significant last-mile and BOPIS efficiencies. But, is this strategy what's best for malls? In the near term, it might be an excellent strategy to address eroded NOI, however, it's not necessarily in the best long-term interest of the project, the real estate on which it is situated, or the landlord, fellow retailers or the community which it serves. For the past year, I've been involved in a National Academy of Sciences panel focused on integrating freight movement considerations into land use planning. A key element of developing good policy lies in managing externalities or a consequence of a transaction that is not priced into the transaction. An example of a negative externality associated with a distribution center backfilling a mall's dark anchor space might be a long-term leasehold interest making it impossible to redevelop an otherwise well-located property for its highest and best use, in a similar manner as a CC&R restriction. In this case, long-term economic costs to unrelated parties could far exceed the short term NOI gain for the landlord. Put differently, it could be a short-sighted strategy that makes sense today, but not after COVID is controlled.

GlobeSt.com: How can retail landlords partner with cities to help reposition big-box and other vacancies?

Greensfelder: Landlord and city interests may be aligned more than the obvious. Empty boxes and increasing vacancies are a sign of changing markets, and that change is simply becoming more obvious because of COVID. What initially looks like a big-box vacancy may be indicative of an entire property needing to be repositioned. The partnership starts with each party (landlord and city) understanding the economic and commercial realities the other faces: projects becoming non-viable for owners and tax revenues shrinking for cities. When this alignment of interests is acknowledged, a constructive discussion about repositioning and redevelopment can be started. With respect to logistics uses such as distribution centers, a non-retail use may be counterproductive on many levels for the viable retailers that remain in the project. It gives a mixed-message to consumers rather than driving retail traffic, creating a counterintuitive mix of commercial traffic in an environment designed for consumers and pedestrians, and the long-term leases required to justify the user's capital investment can get in the way of large-scale redevelopment plans. A logistics use could also be incompatible with non-retail uses such as residential, office or education uses backfilling a former mall. At a minimum, a project should be looked at holistically with respect to any change in use, and both cities and owners should resist the temptation to be captivated by short-term fixes.

GlobeSt.com: What concerns should public officials have when considering significant change of uses for malls?

Greensfelder: Public officials are in the unique position of needing to balance near-term decisions, their long-term implications, and pressure from elected/appointed officials, constituents, property owners and retailers to do something. Because retail projects are generally so well located in the community they serve, and as a result, represent the best redevelopment opportunities for town centers or defining how communities function going forward, their interests are not aligned in that regard, even though a seemingly easy fix such as backfilling retail space with logistics uses might stabilize a property's revenue stream today. It does so potentially at the expense of maximizing that property's long-term utility. We advocate for thinking expansively about what opportunities a property represents, and then take a data-driven approach with a significant community involvement process to narrow which of the scenarios represents the best opportunity for both a property and the community in which it's situated.

Public officials also need to take long-term housing policy and last-mile environmental concerns into account. Malls may represent an excellent opportunity to create housing for people migrating due to climate change. The last-mile a package travels to its final destination is the most expensive part of the journey with the highest environmental impacts (CO2 emissions, use of public space for delivery truck, labor and capital expenditure). While a centrally located distribution hub may reduce some last-mile impacts, i.e., reduced shipping expense, it can create other issues like traffic while creating an obstacle to repositioning a regionally oriented project in a way that benefits the community in far more profound ways than a distribution center could. This is not to say that a distribution center can't be a part of a project, however, it certainly doesn't belong in the physical middle where a dark anchor store is most likely located. If such a use is to be included, it should be placed on an appropriate edge with among other things, an eye to inner-project circulation and general traffic impacts of truck traffic at what will almost certainly be a key intersection.

GlobeSt.com: What concerns should residents have about how failing malls are tenanted or positioned for reuse?

Greensfelder: Malls are community centers because of their central location, services offered and role as gathering places. For these reasons, residents have every reason to be concerned about their failures and also about their future uses. We often see resident-stakeholders expressing nostalgia for the way now-obsolete shopping centers once were. Residents should understand that changing consumer behaviors, i.e., buying commodities in particular from platforms, and retail consolidation has led to less project differentiation and by extension, ability to draw a wide audience. This inevitable market evolution isn't all bad. It presents opportunities for projects to be redesigned and repurposed to serve today's needs which are necessarily different from yesterday's needs. All stakeholders—cities, owners, retailers and residents—should be concerned about any potentially permanent solution that is a reaction to a temporary problem, and where positive externalities are maximized and negative externalities are examined are mitigated. Residents should be concerned if they see land use decisions being made without their local governments first taking a retail resilience approach. Creating a forward-looking land use framework for those projects which may represent the best opportunities as multi-purpose community centers and gathering places is the surest way to avoid unwittingly tying up a project that has the potential to be transformative for a community.

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