

ILLUminate Blog Transcript: Loren Keim on What Comes After Malls?

Recorded November 18, 2021. Listen to it [here](#).

- ANNOUNCER: 00:02 This podcast is brought to you by Illuminate, the Lehigh Business Blog. To learn more, please visit us at Business.Lehigh.edu/news.
- JACK CROFT: 00:13 Welcome. I'm Jack Croft, host of the Illuminate podcast for Lehigh University's College of Business. Today is November 18th, 2021 and we're talking with Loren Keim about the future of shopping malls in the United States. Loren is a professor of practice in the Perella Department of Finance's Goodman Center for Real Estate. He teaches Case Studies in Real Estate, as well as the two-semester Real Estate Practicum. He is also an author of real estate "How to" books, an international speaker, and the owner of Century 21 Keim Realtors, with more than 90 brokers and associates in eastern Pennsylvania and New Jersey. Thank you for being with us today, Loren.
- KEIM: 00:54 Thanks for having me, I appreciate it.
- CROFT: 00:57 So the topic today is shopping malls, which mushroomed across America from the 1960s into the '90s, but have been losing stores and closing at alarming rates for more than a decade. A report by Coresight Research last year estimated that 80,000 retail stores are expected to close in the next five years, and about one quarter of America's remaining shopping malls are expected to close in the next three to five years. Let's start with the period prior to 2020. What were some of the primary factors involved in what's been dubbed as "the retail apocalypse?"
- KEIM: 01:34 It's a good question. I remember a professor from way back when I was in college, when we used to have to take horse and buggy to school, saying that no business lasts forever and no business model lasts forever. And he used a lot of examples of failures of really large businesses over time. And even in my lifetime, I've seen so many large businesses fail. The only constant in the universe is change. In the 1960s, we transitioned away from those downtown shopping districts to the comfort and convenience of indoor shopping malls, getting us out of the rain and snow. And at the time, the press lamented the demise of the downtown shopping experience. And 30 years later, we started transitioning away from indoor malls back to shopping centers that were not enclosed, because the pace of life was moving faster. We wanted to get in and out of stores more quickly. We didn't have time to park in the parking lot and hike into the mall to find that perfect store. Over the last decade or more, we've been moving more toward the convenience and speed of ordering products online and having them delivered. It's no longer fast enough to stop at a store and run in for our purchases. But convenience isn't the only reason bricks and mortar stores declined, of course. The other primary reason people shop online is that they can search for nearly anything, they can find it, and they can have it delivered. And I hate to say it, because I love the experience of going out and shopping, but it's a lot easier than driving from store to store, looking for the perfect toy or gift. I can go online and search Harry Potter gift or Baby Yoda toy, and a list of items populate right in front of you that you can purchase. Even clothing, which a decade ago I would not have purchased online because I wanted to try it on, I found it's much easier. I would go to Brooks Brothers and, of course, not find a shirt my size, and they'd have to call around other stores and have one sent from another store over. Now I go online and I pick

the exact size I want. I'd go to Bon-Ton to get slacks, they'd be out of my size, and I'd go to the next Bon-Ton and the next Bon-Ton to find that size that fit me. Another quick thought is that, honestly, it can be a hassle for some people to drag young children along to shop. It's easier to do it online while one's taking a nap. Still, there were people who weren't shopping online much prior to the pandemic because they either didn't trust putting their credit card information onto the internet, or because they wanted to touch and feel something before purchasing. And I think the pandemic accelerated that move to online purchases. Customers were afraid they'd contract COVID if they left their homes during that last holiday season and they were pushed to order online, and many of them did find that experience easier than anticipated.

KEIM: 04:19

But when you're talking about retail-- I apologize, I go on too long sometimes. But when we're talking about retail collapse, you do have to understand that there are also healthy retail stores. And as much as we talk about the effects of Amazon, Amazon, in 2020, accounted for less than 10% of retail sales in the United States. Although they spiked significantly in 2021 so far. The revenue for Walmart in 2020 was just under \$560 billion, if I remember correctly, and [Amazon] was at \$386 billion and CVS wasn't that far behind at \$268. This year has been a little different. June 2020 through July 1st, 2021, Amazon did, for the first time, overtake Walmart with skyrocketing sales. They were about \$610 billion. But Amazon also recognizes an opportunity in bricks and mortar, and they have plans to build some retail stores. But it's a little bit of a different dynamic. They're looking at a footprint of a store that's going to be about a third the size of Walmart stores. And that's going to be, possibly, another shift in the way consumers shop.

CROFT: 05:25

One other interim stage, it seems, is-- and then we've seen it, I think, across America, for the most part, was that as shopping malls began to fall to the wayside, in a lot of places, these, I believe they're called power centers, started popping up with, as you just mentioned, Walmart, Target. These became the new Sears and Lord & Taylor, and I mean, the anchor stores in malls suddenly became these large, basically standalone stores that were usually in a center that maybe had a few others, but were not exactly at all like shopping centers or shopping malls. And I think that probably goes back to what you were talking about, of people wanting to be able to drive directly to the store they want to go to, run in, get out.

KEIM: 06:15

Very true. Power centers, for those who don't know, are shopping centers where there's not a lot of small, in-line stores. They are typically big box stores that are together in one center. So you have a Best Buy and a Barnes & Noble bookstore, very large stores right next to each other. So if you're shopping for that electronic device, you're going to be running into the Best Buy. If you're shopping for a book, you're going into Barnes & Noble. And then you might have a Costco and a Target in the same center. But they're typically all big box stores. And that seems to have done better than the mall version, with smaller, in-line stores that have more limited products or more specialized stores. The other type of shopping experience that has been more popular lately, of course, has been the lifestyle center. And there's a little bit of a difference. The power centers are where we're going to get something that we need, that we can get relatively quickly, and hopefully get in and out because we're parking right in front. And the lifestyle center is more a place where you've also got some entertainment, they're set up more like little downtowns, almost, with some ambiance and some entertainment venues, some places where you stop to

have a cup of coffee, you stop to have a lunch, that type of experience. So they've broken down into the experiential version, which is that lifestyle center, or the power center, where people actually go to shop. And what succeeds long-term is yet to be seen.

CROFT: 07:54

Yeah. All right. You talked a little about the effects of COVID-19 on what's been happening with retail. And this year, we had, in a lot of parts of the country, the views of images of what used to be shopping malls that were vacant. And in some of the big stores, whether it was Kmart or Sears, they were giving vaccines to people in these places. So I mean, I don't think there was a connection, certainly, between that-- that was the use of empty space at that point, and we'll talk about that. But in what ways did COVID-19 either accelerate or worsen the trends that you were talking about? And is that, in your mind, at this point, irreversible? Has the damage been inflicted?

KEIM: 08:57

Well, once certain stores start failing-- if you look at Sears and Kmart as a good example, once they start failing, it's really hard to recover. Something may appear to take their place. But remember, many, many years ago there was Macy's, Gimbels, A&P. And of course, Kmart and Sears came in and displaced them. And then, of course, Walmart came in and displaced that. As I mentioned, the pandemic kind of accelerated that move to online purchases. Customers were afraid they'd contract COVID if they stopped at stores during the holiday season and they started ordering online. But the other thing that happened was it tilted the playing field further, for large department stores particularly, and for clothing retailers and other retailers that didn't sell food or medicine or tools. Particularly, if I look at the New Jersey, Pennsylvania market - many places across the country - Walmart and Target were allowed to stay open because they sold food and tools, and those were considered necessities. Those stores that supplied just clothing or home goods or decorations were forced to close for several months. And a lot of these department stores and specialty stores already were having problems prior to the pandemic. And you start taking two, three, five months out of the ability to generate any income at all, just pushes them over the edge. Those purchases that would have helped preserve some of those department stores were spent online or in stores that were allowed to remain open. And again, if you had a mall that might have had three large anchor stores, and those anchor stores were JCPenney, Lord & Taylor, and Neiman Marcus, you might be left with a mall without any anchors at all by mid-2021. And anchor stores have that title because they're the anchors of any shopping center. They're the draw that leads customers to that center. And they're so important centers that, generally, they have the lowest rent in a mall or a shopping center. And while there are shoppers who travel to a center for a specialty shop, like a comic book store or a gaming store or a pet store, a large percentage of consumers select their shopping based on whatever that major anchor store is in the center. And closing anchors can mean the death knell for many of the other stores in that center. So I think it accelerated the demise of a lot of the retail centers across the country, by shifting some of the income that would have been spent at those stores to online competitors. And also, unfortunately, took out the profit or the sales they would have had for that entire period of time during quarantines, when those stores were unfortunately forced to shut down compared to some of their competition, which was allowed to remain open.

CROFT: 11:45

Now, looking back over the past couple of decades again, kind of that broader view. I do wonder how much of what's happened could have been avoided. In other words,

were there changes that shopping malls could have implemented that might have helped them remain viable?

KEIM: 12:05

It's a really good question, and I don't know that I have an exact answer. But downtown retail districts have been trying to answer that question for decades. What brings consumers back to a downtown? What could have been done differently? In Allentown, Pennsylvania, very close to Lehigh, they tried to compete with malls by building parking garages near the larger stores and by putting canopies over the sidewalks to try and eliminate that concern that shoppers were walking out in the rain. It didn't work. And maybe nothing could have stopped the decline of many shopping centers, bringing it forward 30 years. But there are centers that have reinvented themselves and done quite well. I think the primary way to save retail centers is to create foot traffic. We have built our zoning laws or designed our zoning laws with the idea that we need to separate retail uses from office uses from residential uses. It's kind of funny; I was talking to a township on Monday about a situation where-- we were looking at a developer who wanted to put a mixed-use project on a property, and the township was very clear, "No, this is zoned X, so therefore you can't put anything except X on this property." And that may be a mistake, because integration may be the key to the future. There's actually a mall in Tysons Corner, Virginia, Fairfax County, Virginia, that was one of the largest indoor malls in the United States in the late 1960s. It was 1.5 million square feet, which, at the time, was very large. And over the decades, they've reinvented themselves several times, adding more square footage, more anchors. And then they added lots of entertainment venues, food options, had sites outside. And ultimately, their success became tied to bringing people to the site. Now, today, Tysons Corner has 2.7 million square feet of retail and entertainment space, as opposed to 1.5 when they first built it, on an 85-acre site. But more importantly, there's an additional 4 million square feet of office buildings where people work and with residential apartments where people live, integrated into that same site, creating a dynamic that works well. People in office buildings can go out to lunch and stop for something to buy quickly, people who are living there can stop to buy something conveniently.

KEIM: 14:27

The King of Prussia Mall — recently, Lord & Taylor closed, of course. And that space, if I remember correctly, was 120,000 square feet. The plan is to convert that into office space and rebrand it as York Factory. Initially, the plan was to convert that property into a co-working space like we were, but the pandemic has kind of quashed those plans. Now they're developing more conventional office space, again, to try and integrate something other than just retailers. And the other issue, of course, is there aren't as many large retailers that can take a 120,000-square-foot site anymore. Bruce Toll — you may be familiar with the Toll Brothers and BET Investments. This is a couple of years ago. He purchased the Granite Run Mall, and he rebranded it The Promenade at Granite Run. Incidentally, the term mall is becoming dated. It's funny how we try and change the language to make something sound better. Retail owners are running from that term, mall. So now it's galleria or promenade, and there are other terms to replace it. But Granite Run was where the movie "Mall Rats" was filmed. And it was a typical mall with JCPenney's, a Sears, and a Boscov's as the anchors. They had about 125 in-line stores and it was not doing so well. I'm honestly not sure what the status is exactly at this point today, but the plans were to take the site, put in approximately 400 apartments, build some fairly large entertainment

venues and other mixed-use into that complex, again, to try and create that synergy, that foot traffic in the shopping district.

CROFT: 16:01

Kind of looking at it from the other side, what can former shopping malls, retail, do, offer in the in-person experience that the online can't compete with? And I think what you've been talking about most recently here probably gets at that, that integrating living, working, and dining, and shopping all in one area seems to be something that you can't do online.

KEIM: 16:33

Yeah, one of the bright spots for retail centers - although not necessarily for many of the existing retailers - is that the next generation seems more interested in experiences rather than buying and collecting stuff. So we may see a lot of it-- when we talked earlier about how many retailers are going to close, unfortunately, it's very likely, because some of them are just not going to be able to compete with online stores. But the malls themselves, the shopping centers themselves, may have to reinvent what's in the mall. And if that next generation is looking for experiences, whether it's going out to eat or whether it's-- there's one mall that has an indoor virtual skydiving thing. So sections of shopping malls and shopping centers can be repurposed into more of an experiential-type use. There have been movie theaters, restaurants in malls for years, but now we're seeing escape rooms, indoor go-karts, miniature golf, yoga classes. Fitness clusters is a big thing, with gyms and spas. And in some malls, you're even seeing some indoor amusement parks. Northern Jersey, there's the American Dream Mall. That's Rutherford, New Jersey. I haven't actually been to it yet. But there's a DreamWorks water park in it, there's a Nickelodeon theme park in it, a Legoland, and they even have indoor snow skiing. But it's a way to generate people to come to the site.

KEIM: 17:59

Other concepts to keep consumer shopping in-person have included personal shoppers-- let me back up a second and kind of segue. So when Lowe's and Home Depot came into many markets, there were problems with smaller hardware stores competing. And the question between a small hardware store and Home Depot, as an example, has always been, "Do you really need 18 different variations of hammers?" And part of the challenge that consumers face when they go into a Home Depot, as a comparison, is you have to find something and you have to find somebody to help you, and it can be challenging. So many smaller hardware stores reinvented themselves and they had someone at the door waiting for you or someone who picks you up as you come in and said, "What are you looking for? I'll find it for you." Kind of that personal shopper experience to help consumers find that perfect gift. You might also have a blended experience of finding products online, but picking them up in the store, and maybe apps that make that experience more interesting. There are a lot of concepts being tested, and I guess only time will tell what's going to be next.

CROFT: 19:06

Now, just as you're well aware, I'm sure, one of the old saws in real estate is, "Location, location, location." And shopping malls tended to be built near major intersections, with the goal of providing easy access in and out for automobiles. So I'm wondering: For the vacant malls that have already given up the ghost, what other uses make sense for those locations? There's been talk about warehouses going into some of them. And what potential uses might not be a good fit?

KEIM: 19:42

Funny; whenever somebody says something about vacant shopping malls, all I can picture is the old zombie movies where people are hiding out in the mall and-- but whenever you're looking at a high-traffic location, like where most malls and major

shopping centers are, the question is, "What's the highest and best use of that location?" If you have a small corner location and you had a bank on it or you had a 7-Eleven on it, those small sites tend to be reinvented into the highest and best use that makes the most money, like a Walgreens or a CVS has one of the strongest returns of any retailer. A Wawa or Sheetz can generate a strong return and are not able to be displaced by online stores because you can't get gas and a fresh sandwich from UPS. When you have some of these large sites, where there are regional malls, repurposing those high-traffic sites might be better suited for medical purposes, like larger regional hospitals, or for distribution. There's a large anchor store in central Pennsylvania in a shopping mall that we've been working on that's likely to be repurposed as a large medical center or a small hospital. And the anchor of this shopping center is going to convert into medical space, which is interesting. And as you're probably familiar because it's close to Lehigh, some shopping centers or some malls like the Phillipsburg Mall in New Jersey are actually being torn down. And that site is being replaced by warehouse, by a large distribution facility, because it is a strong location relative to transportation. May not be quite as appealing visually, as you drive by the intersection of I-78 and Route 22, but it is effective. It's perfect for that distribution network, and some of it's going to be repurposed into that.

CROFT: 21:33

All right, so to begin to sum up here, then, what does the future of shopping malls look like? Or promenades or gallerias? And what are some of the most creative and promising changes you've seen that perhaps offer some reason for hope?

KEIM: 21:49

I think shopping centers also have to create a mix of uses that shoppers can't do online. Gyms and fitness centers, entertainment, food, health and wellness are some of the keys to creating that traffic. And again, another approach might be to embrace the e-commerce marketplace and perhaps create some storefronts that are truly fulfillment centers, which is what Amazon is looking at, where customers can stop to pick up products without worrying about the next person stealing it off their porch when something's being delivered from an e-commerce site. I think there's going to be a lot of creativity put into the retail experience over the next decade, and we'll see how it shapes up.

CROFT: 22:30

Yeah, one thing I've noticed more this season than perhaps in the past is a lot of the stores, from Target to Kohl's and others in this area, are offering the online order pick-up at the store. Which is, again, that hybrid experience of, "Okay, I know what I want. I'm going to go ahead and buy it, and then I'll just drive to the store and I have it that day." Is that something that's also been proving effective?

KEIM: 23:03

Yeah, I believe so. Particularly right now, with so many shoppers concerned about the inability to get something that they order, coming into the holiday season. When you look at the holiday season as an example, coming up, I think we're going to see a pretty strong in-person shopping experience this year, at least, for the reason that people are worried about the distribution network. Also, part of the reason is that so many individuals didn't get to experience shopping for gifts last year. And if you recall, the highest number of COVID cases were from that mid-December period to early January, and that affected both those who are afflicted and their families. And in fact - I mentioned earlier - I was actually hospitalized myself on Christmas Day last year. But there were also a large percentage of the population that were really worried about contracting the virus and they stayed home. And although I'm not a psychologist, I believe that people tend to overcompensate when they miss

something. And I think many people missed that physical experience last year of shopping, and they seem determined to make it up. We're already seeing heavier volumes of people coming into some of the major retailers so far this year, prior to Thanksgiving, than we did last year and the year before, actually a little bit higher than 2019.

KEIM: 24:20

Second reason is that expectation that shoppers won't be able to get packages delivered on time for the season. Even last year, if you recall, there was an issue with packages arriving later and later. I ordered some stuff - a series of Hawaiian shirts for the family. I thought it was funny at the time - from China. And they showed up in June. So news reports are continually broadcasting that the supply chain crisis is happening. There are some great memes out there, where people are taking canoes out to ships that are anchored off-shore in Los Angeles to do their holiday shopping. And that concern, the potential issues of getting packages delivered, is likely to influence consumers' decision on how to shop during at least the upcoming holiday season. One of the primary reasons so many people shop online is that they can search for nearly everything, find it, and get it delivered. It's easier than driving to the store and looking for that perfect toy or gift. But that bad taste of not receiving gifts on time last season, I think it's going to be reflected in more shoppers going retro and shopping in-person.

KEIM: 25:23

And keep in mind that even if we have a shift of 5% back from online purchases this year to bricks and mortar, that could be an enormous windfall to bricks and mortar. That is really just this season, the holiday season of 2021. The future of bricks and mortars is, of course, uncertain. There's always going to be an in-person component to shopping, but that in-person component may continue to erode. And perhaps last year's 10% of retail sales being done by Amazon and about 15% of retail sales being done through e-commerce could grow to 25% or 35% through e-commerce. But there's still going to be that physical component of shopping. And I do think that that fulfillment idea, where someone's going to order something online, but still be able to go pick it up today, is going to be very crucial to the success and survival of some of these retail outlets. And I think that's one of the reasons that Amazon itself is looking at putting some bricks-and-mortar stores out and why they're trying to find a way to get same-day delivery; to avoid some of that business going back to bricks-and-mortar stores.

CROFT: 26:31

Well, on that optimistic note, I think that's probably a good place for us to wrap up the discussion. I want to thank you, Loren. It's been a lot of fun and I think that this is something a lot of people have been living through for the last few years, these changes that have come and will continue to come. And I think you've shed some interesting light on why it's happened and what we have to look forward to.

KEIM: 26:58

Thanks very much for having me.

CROFT: 27:00

I'd like to once again thank my guest, Loren Keim. He received both his undergraduate degree in management and his MBA from Lehigh University. Among the books he has authored are "The Fundamentals of Listing and Selling Commercial Real Estate," "How to Sell your Home in ANY Market," "Compelling Buyers to Call," and "Real Estate Prospecting." This podcast is brought to you by Illuminate, the Lehigh Business Blog. To hear more podcasts featuring Lehigh Business thought leaders, please visit us at Business.Lehigh.edu/news. And don't forget to follow us on Twitter,

@LehighBusiness. This is Jack Croft, host of the Illuminate podcast. Thanks for listening.