

Mall's demise could doom community

Sharp jump in store vacancies and a frozen credit market could force closures, resulting in loss of vital revenue and jobs.

By Parija B. Kavilanz, CNNMoney.com senior writer

NEW YORK (CNNMoney.com)—With thousands of stores closing in the economic downturn, the increase in empty space at the nation's shopping malls is leaving a hole in the hearts of once-vibrant communities.

With one-quarter or more of some shopping centers empty, the decline - or even the demise - of a mall can have a devastating economic and social impact

"When a mall closes, you have a significant loss of jobs, even though these are typically low-paying jobs," said Scott Hoyt, senior director of consumer economics at Moody's Economy.com.

Commercial real estate, such as malls, also provide significant tax revenue to communities through property tax, said Zenia Kotval, associate professor of Urban and Regional Planning at Michigan State University.

In tough economic times, Kotval said small towns are dependent upon this money from private enterprise to balance a budget deficit, fund local services and infrastructure development.

The village of North Randall in Cuyahoga County, Ohio, is already facing this scenario.

Shopping stifled

The Randall Park Mall has been a main source of revenue for North Randall, a suburb of Cleveland that has a population of about 1,000.

But a challenging economic and competitive climate has crippled business - and the 32-year-old shopping center, once the largest enclosed mall in the greater Cleveland area, is closing. The current weakness in consumer spending, which has stymied retail sales nationwide, finally forced the mall to shut down.

Cuyahoga County Commissioner Peter Lawson Jones said the once-booming mall had been struggling for a decade.

"When the mall and the (nearby Thistle-down) racetrack were booming, the community had more money than it could stand,"

Jones said. Besides jobs, he said the village's residents also depended on revenue from the mall to fund basic services such as security and free snow plowing for senior citizens.

Now, the demise of the mall and sluggish patronage at the racetrack have almost put the village of North Randall on "deathwatch," Jones said.

The situation is so bad that the village can no longer provide its own security for its residents. "The Cuyahoga County Sheriff's Office is patrolling North Randall," Jones said.

Unless the village figures out how to revitalize the 1.5 million square feet of mall space, Jones fears that North Randall "could become the first municipal fatality in North Ohio."

"It could simply cease to exist as a city," he said.

Vacancies on the rise

Store vacancies at regional malls such as Randall Park are up 6.6%, which is the largest increase since early 2002, according to real estate research firm Reis.

In some malls, store occupancy rates are falling below 75%, said Ivan Friedman, president & CEO of RCS Retail Real Estate Advisors.

Premier malls that churn higher sales per square foot - such as Roosevelt Field on New York's Long Island - are less threatened by this trend, Friedman said. Rather, it's the independently owned smaller regional malls that could be forced to close if business continues to evaporate.

Moreover, in a down market, a defunct mall is unlikely to be replaced with any new economic activity for some time, said Suzanne Mulvee, a real estate economist with real estate research firm Property & Portfolio Research (PPR), Inc.

Village of North Randall Councilman Woodrow Marcus indicated that the mall is in the process of changing ownership. "Once it is sold we want to redevelop it for business use such as a technical school," he said

Credit freeze: Another big problem

One big obstacle to any type of large scale redevelopment in North Randall or anywhere else is the ongoing credit market lockdown.

Industry experts said this could make it very hard for commercial real estate developers to borrow money for financing construction work.

RCS' Friedman said the credit freeze is also forcing regional mall operators who can't meet their debt obligations to put underperforming locations into receivership, which puts control of the property in the hands of its creditors.

"Usually we see three or four (malls in receivership)," Friedman said. "I've already noticed eight or nine (malls) this year and I think it's the beginning of a trend."

PPR's Mulvee said malls are being hit hard from all angles. "More than 6,000 (locations of) national chains this year have announced closings, and 50% of those are in malls," she said.

"Second, there's no financing available for mall operators," she said. Several of the leading mall operators have significant debt that's coming up for renewal at the end of 2008 and early 2009.

Given the tight credit environment and dismal forecasts for retail sales in the fourth quarter, real estate analysts said lenders are unlikely to refinance those loans at lower rates.

General Growth Properties (GGP), the second-largest operator of malls, announced last month that it might sell some assets to raise capital for servicing its debt.

Although it's rare for a mall to close, and a lot has to happen before it does, any further deterioration in the retailing environment could spur closings, Friedman said.

"If [mall] occupancy rates go down even further then it could get very frightening out there," Friedman said. ■