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Malls Test Experimental Waters to Fill Vacancies

By STEPHANIE ROSENBLOOM

In these desperate days in American retailing, mall owners are seizing on a new gimmick: wave-making machines.

A half-dozen malls across the country are planning to install a huge contraption called the Flowrider in vacant retail space. Where once people shopped for three-packs of underwear or sheet sets, they are now turning up in flip-flops and shorts to surf an artificial patch of ocean.

However good a business that turns out to be for the company controlling the Flowrider, it is also a sign of the times. With major retail chains like Linens 'n Things and Circuit City closing stores or disappearing altogether, mall and shopping center vacancies are soaring, forcing landlords to find new ways to lure traffic and stave off decline.

Downscale chains that landlords once kept out of shopping centers are suddenly being shown the welcome mat. Temporary stores are popping up. Once-small retailers are being invited to take over big spaces, while the strongest national chains are seizing the moment to move into new cities at low rents. And vast mall spaces formerly occupied by department stores may soon be carved up or turned into community colleges and dance studios.

"Landlords are scared," said Suzanne E. Mulvee, a real estate strategist with Property & Portfolio Research. "Part of the reason they're scared is dark space doesn't pay."

When the nation's stores report March sales results this week, the numbers are likely to be down yet again—especially for department stores and mall chains, which have been the weakest performers for months.

That does not bode well for mall owners. As more stores have closed, mall vacancies are at their highest point in almost a decade, according to Reis, a research company, which said the vacancy rate at the end of 2008 was 7.1 percent, compared with 5.8 percent at the end of 2007. Other analysts have slightly lower figures, but all agree that vacancies are rising.

For some retailers, the brutal environment means new opportunities. That is especially true for the one major retail category faring well nowadays—discounters, like dollar stores and Big Lots, that are suddenly moving into more prominent locales.

"They were shunned for five years by the landlord community," said Spence J. Mehl, senior vice president at RCS Real Estate Advisors. "And now everybody's knocking on their door and they're cutting incredibly aggressive deals, because they can."

Of all the vacant spaces, the most difficult to fill are anchors—those big stores at the periphery of a mall. In recent months, Macy's, Sears, Dillard's, Mervyns and Steve & Barry's have closed big mall stores. Last week, the bankrupt Gottschalks department store chain began liquidation sales.

Greg Maloney, president and chief executive of the retail group at Jones Lang LaSalle,

a real estate brokerage firm, said that to fill empty anchor spaces, landlords were getting creative and were considering bringing in grocery stores, medical facilities, dance studios and even community or technical colleges.

"I think you're going to see a lot more of that," Mr. Maloney said.

Several schools—like New River Community College in Virginia and Hagerstown Community College's Center for Continuing Education in Maryland—have been holding classes in malls for years. But industry professionals say the trend is likely to accelerate.

With Americans buying less, many chains are asking mall owners for rent reductions, and are sometimes receiving them. That adds to the malls' financial woes.

One of the nation's largest mall owners, General Growth Properties, is laden with more than \$25 billion of debt, has missed payment deadlines on its bonds, and is trying to avoid filing for bankruptcy protection.

Landlords are willing to lower rents for their best retailers—but only those that can prove financial distress. The landlords may not be able to play hardball for long, though. More major chains are expected to file for bankruptcy this year, leaving behind empty stores.

In this economy, few chains need spaces as large as the ones coming onto the market.

"I talk to landlords and they're taking an old Dillard's box and putting a Best Buy on the

top level and a Dick's Sporting Goods on the bottom," said Joseph Feldman, a retailing analyst with the Telsey Advisory Group.

Researchers who study land use point out that while the recession set off the latest round of vacancies, the problems faced by mall owners and developers have been building for more than a decade.

"There was really no relationship between development and the increase in consumer spending," said Stacy Mitchell, a senior researcher with the Institute for Local Self-Reliance, an advocacy group.

Between 1990 and 2005, consumer spending per capita rose 14 percent, adjusted for inflation, yet retail space per capita in the United States doubled, said Stacy Mitchell, a senior researcher at the Institute for Local Self-Reliance, an advocacy group.

In her view, that created too much store space even for a good economy, and then retailers were hit by the recession. "All of this overdevelopment has pulled the rug out from under them," she said.

While mall owners may be batting around plenty of unusual ideas, the Flowrider—a 10-foot-tall wave machine that sends 35,000 gallons of water gushing over a slope at more than 30 miles an hour—is among the most unusual.

The device is the centerpiece of a cult sport that got its start in water parks and on cruise ships. Lately, a retail chain called Adrenalina, which sells gear for extreme sports like skydiving and kite-surfing, transferred the concept to retail stores.

Because the machines can draw enthusiastic crowds, Adrenalina is getting sweet deals

from landlords. Adrenalina executives said some mall owners were paying to install the Flowrider, upwards of \$2 million, just to get the extra traffic.

"They know that we'll pull people from a further distance than their regular tenants," said Jeffrey Geller, president and chief operating officer of Adrenalina.

An Adrenalina store that opened last month at the Shops at Willow Bend in Plano, Tex., is already a popular destination. Steven Coyne, an Adrenalina district manager in Dallas, said that in the few weeks the store has been open, the Flowrider has garnered repeat customers—and stupefied gawkers who cannot believe people are riding waves inside a mall.

"The funniest question I've ever had," he said, "was, 'Are those real people?'"
