

Business

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It's feast or famine for some area malls

Wealthy consumers increase spending; others chase bargains

Jaclyn Trop/ The Detroit News

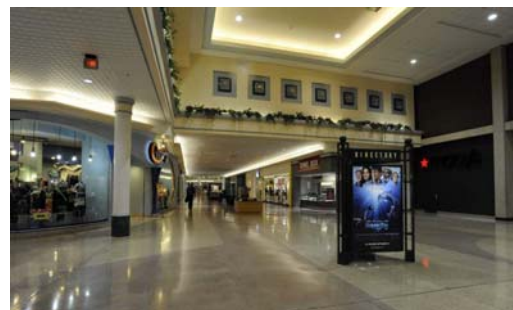
The upcoming holiday season and stagnating economy could exacerbate a gap among the malls in Metro Detroit, where some centers prosper and others remain challenged to fill their vacant spaces.

The tale of two consumers is responsible for the imbalance. Wealthy consumers have increased their spending, while a shrinking middle class and lower-income households continue to seek bargains, local brokers and retail analysts say. The economy stalled halfway through the year, thwarting what looked like a slow but steady recovery for retailers here and nationwide, leaving the top performers to outpace the weaker players.

"The recession really polarized the good performers from the mediocre performers from the poor performers," said Laura Gurski, head of global management consulting firm A.T. Kearney's retail practice in Chicago.

During the past two years, the region's malls made a minor rebound in their vacancy rates since the depths of the recession.

But the average vacancy rate for the Metro Detroit mall in the July-September period rose to 8 percent from less than 6 percent last quarter because longtime vacancies in the mostly empty Summit Place Mall in Waterford Township finally were included, according to CoStar Group Inc., a commercial real estate research firm based in Bethesda, Md. CoStar includes in its mall category



Northland is challenged by the age of the building and low occupancy, but shines when it comes to offering community events. (Charles V. Tines / The Detroit News)



Tamala Christopher and 4-year-old son Matthew of Farmington Hills stroll through Twelve Oaks in Novi, which benefits from strong retail anchor stores where more affluent shoppers seek out luxury goods. (David Coates The Detroit News)



Westland Center in Westland is still healthy but draws fewer dollars per square foot. It is benefiting from the expansion of major tenants attracted by the low rents and favorable lease terms. (Todd McInturf / The Detroit News)

large shopping centers that may or may not be enclosed.

The area around Summit Place is skewing the average rental and occupancy rates for the entire region, said Ken Dalto, a retail analyst in Farmington Hills.

"North Oakland County is economically depressed in large sectors," Dalto said. "The population of 'mom and pops' and the depressed, almost rural demographic that drives that retail is an additional explanation."

The rental rates for malls in Metro Detroit have seen a slow improvement, though retailers are still paying half of what they paid five years ago.

Rents per square foot fell 4 cents in the third quarter to \$11.47, CoStar reports. That compares with a high of \$22.10 in 2006 and low of \$8.87 in 2009.

The malls with the strongest retail anchor stores have benefited the most this year, including the Somerset Collection in Troy, Twelve Oaks in Novi and The Mall at Partridge Creek in Clinton Township. They have high occupancy rates, which is a reflection of a rebound in spending on luxury goods among wealthier shoppers, local brokers and retail analysts say.

Many top malls — known among industry insiders as Class A properties — reap sales of \$400 per square foot or more, while lowest-tier Class C malls may eke out \$100 in sales per square foot.

The next level of malls such as Lakeside Mall in Sterling Heights and Westland Center in Westland — considered Class B properties — are still healthy but draw fewer dollars per square foot. They are benefiting from the expansion of value-oriented national tenants — T.J. Maxx, Dress Barn and teen discounter Five Below among them — attracted by the region's low rents and favorable lease terms.

Westland Center has only two vacancies, including a former Borders Express store, said marketing director Patrick Derrig.

"For certain retailers, second-tier malls make sense again," said Kees Janeway, a retail real estate broker and leasing consultant with Stokas Bieri Real Estate in Detroit.

But the remainder of the region's malls — usually dealing with an inferior location or mass vacancies — continue to face challenges. Some national retailers have pulled out, and the smaller, independent tenants who would normally replace them are suffering from a lack of bank financing.

The properties known as Class C malls are struggling, said Earl Clements, a Grand Rapids-based broker with Colliers International and director of the Michigan chapter of the International Council of Shopping Centers. Their turnaround prospects are more remote than the healthier malls, and some owners may eventually decide to use the properties for other businesses, he said.

"What they should do is take anything they can get to fill up space, whether it's a Goodwill Industries or an outlet or a fitness center or a church," Clements said.

Eastland Center in Harper Woods is one such center where empty space abounds, but its owner, Chicago-based Jones Lang Lasalle, said brighter days are ahead. Target, the mall's

major anchor, recently was expanded and renovated. The center also welcomed two larger tenants, Burlington Coat Factory and Shoppers World.

"Challenges for the property, as with every shopping center, is filling space," said Pam Lightbody, marketing manager for both Eastland and Northland Center in Southfield. "We have been enhancing the retail mix over recent years with a special focus on anchor stores."

Northland is more challenged than Eastland, Lightbody said.

"Challenges here include the age of the building and things that are not under our control," Lightbody said, adding that the former J.C. Penney space is not owned by the mall but is attached. "Where Northland really shines is in the community events and programming that appeal to our family shoppers."

Jones Lang Lasalle recently made infrastructure repairs and upgrades to the mall's electrical, water and HVAC systems, she said.

"We are currently working on filling anchor locations, as we have done at Eastland, and then will move onto smaller spaces."

Southfield — home to the nation's first indoor mall, Northland — is second in vacancies to Downriver, with a 9.1 percent vacancy rate, according to CoStar. The vacancy rate for Downriver is 25 percent, mostly due to the Lincoln Park Shopping Center that is still reeling from the loss of its Farmer Jack anchor.

But Michigan has the benefit of no longer leading the recession and being more attractive to retailers looking to open stores, Clements said.

"It's not like it was two years ago," he said. "Michigan is not the worst-off state now."

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