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Surviving mall malaise

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North Jersey malls don't die. They get redeveloped, re-stored and reborn. Predictions of the demise of the American shopping center have risen in recent months, as hundreds of mall stores have closed nationwide, vacant space is sitting empty longer and new developments such as Xanadu have been delayed.

The statistics are stacked against traditional enclosed malls. Department stores and mall-based fashion retailers have had double-digit sales declines. Developers have stopped building enclosed malls, favoring power centers with big-box retailers, or lifestyle centers, which are collections of specialty stores.

According to the Directory of Major Malls, 72 lifestyle centers and 25 power centers were scheduled to open in 2009, compared with 15 traditional enclosed malls. A number of those enclosed projects appear to be in limbo. The vacancy rate at regional and super-regional enclosed malls (malls of more than 500,000 and 1 million square feet, respectively) rose from 5.9 percent in the first quarter of 2008 to 7.9 percent in the same period this year, according to the research firm Reis Inc., the highest rate in the 10 years Reis has been tracking mall vacancies. Average rents slipped 1.2 percent.

The Wall Street Journal estimated recently that there are 84 "dead" malls in the United States — malls with sales per square foot of less than \$250, based on statistics from the research firm Green Street Advisors. Two of those malls were in New Jersey — Phillipsburg Mall and Voorhees Town Center — according to a spokesman for Green Street Advisors.

But even analysts most pessimistic about the future of malls say the strong shopping centers will survive. And North Jersey's five major malls are expected to be among the survivors.

"We're always going to have enclosed shopping malls. But we're going to have fewer of them," said Howard Davidowitz, chairman of Davidowitz & Associates, a national retail consulting and investment banking firm based in New York City. Davidowitz is forecasting a looming "depression in commercial real estate" that will result in the closing of hundreds of shopping centers, from neighborhood strip malls to large enclosed malls. "Real estate investment trusts are 58 percent off their peak for stock prices. They're getting massacred," he said.

"We've got some great shopping centers. They are very powerful. They will always be with us," Davidowitz said. "But out of 2,000 shopping centers, you've only got about 400 or 500 of those."

Vornado Realty Trust, Simon Property Group and Westfield Group, owners of three of North Jersey's major malls, are among the companies better positioned to weather the current retail storm, Davidowitz said.

All of North Jersey's major malls have already gone through several reincarnations, and survived the loss of anchor stores and major tenants in the past.

Elizabeth Napoli, who managed the property now known as The Shops at Riverside in Hackensack for 21 years, and now is president of the consulting firm MC&M Ltd., recently gave a speech to members of the New York/New Jersey chapter of the International Council of Shopping Centers in which she listed all the stores that she's seen fade from malls over the years — Gimbels, Orbach's, Steinbach and others. "It really puts things in perspective," Napoli said. "It's the cycle. The business model changes with time."

Reincarnations

"Malls are going to be disappearing," Napoli said. "They will be redeveloped. They will change with the times, and we've seen it happen through the last 50 years," since malls first arrived in North Jersey.

The former Bergen Mall in Paramus was considered a "dead" mall not too long ago, after it lost anchors Stern's and Value City. It was purchased by Vornado in 2003 and has been reinvented as an "upscale value center" with the addition of stores such as Century 21, Whole Foods and Target.

Riverside Square, now The Shops at Riverside, also has been redeveloped several times, usually as it changed owners. Its latest reincarnation — as an ultra-upscale center with such tenants as Hermès, Barney's Coop and three new restaurants — was triggered by its 2002 purchase by Mills Corp. Simon Property Group continued the project when it bought the mall from Mills in 2007.

The redeveloped mall was designed to include a wing of upscale boutiques carved out of space that once held the relocated Bloomingdale's home store. That wing remains largely empty. However, Robert Guerra, vice president of Simon Property Group, said Wednesday that the mall is "constantly in conversations with top retailers" to fill that space. "The Shops at Riverside is just a great center," he said, noting that new tenants include Brooks Brothers Men, beauty salon Salon Luba and Wolford, an Austrian lingerie and women's clothing company.

Simon Property Group also owns the Nanuet Mall in Rockland County, which is largely empty because of the closing of the Boscov's department store and other retailers. Guerra said Simon Property Group has plans to reinvent that mall when the economy improves.

"There is no truth whatsoever that Nanuet Mall is closing. We're looking at a variety of different options to reposition the mall and further enhance the tenant mix," Guerra said.

"With the economic climate we're in now, retailers aren't as aggressively expanding, so we're waiting for that to happen." Nanuet Mall, he said, has an edge "because we do see a tremendous increase in traffic being so close to Bergen County, because of the blue laws."

General Growth Properties Inc., owner of Paramus Park and Willowbrook mall in Wayne, filed for bankruptcy in April. However, that action is expected to have minimal impact on the two North Jersey properties, considered by analysts to be attractive acquisitions for rival developers if General Growth decides to sell them.

Minnie Adams, manager of Paramus Park, said Wednesday that the mall still is conducting leasing discussions and has some prospective new tenants in discussions. But a plan to add an open-air, lifestyle center addition to the mall, similar to a project recently completed at Freehold Raceway Mall, is on the back burner until the economy improves.

Westfield Garden State Plaza is one of the highest sales-volume malls in the country, with sales per square foot estimated at double the national average of \$381. Manager Steve Roche said demand for vacancies at the shopping center remains strong, with several new tenants such as the Ed Hardy store opening this spring "and more in the pipeline we can announce later in the year." Westfield, Roche said, is constantly reinventing its malls, which is why "strong retailers are willing to partner with us."

Matt Harding, president and chief operating officer of North Plainfield-based Levin Management Corp., manages 80 retail properties comprising 12 million square feet, including the Paramus Place/Kohl's shopping center on Route 4. He attended the International Council of Shopping Centers convention in Las Vegas last week and said retailers are still interested in North Jersey centers.

Non-mall centers

"There are fewer tenants looking for space these days compared to last year, but there still are tenants looking to get into top-quality shopping centers," Harding said. But Harding, whose company manages enclosed and open-air centers, said he has seen retailers moving increasingly toward non-mall centers.

"People have less time to spend shopping or walking a mall and are looking for their stores to be more convenient to them," he said. At one of his open-air centers, Somerset County Shopping Center, three new tenants — Eastern Mountain Sports, The Gap and Lane Bryant — recently relocated from a nearby enclosed mall, Bridgewater Commons.

"In New Jersey, you're going to see significant malls going away. They're still important," Harding said. "But in certain circumstances, retailers are looking at the bottom line and deciding they can save money by moving out of the mall."

BERGEN TOWN CENTER

Parent company: Vornado Realty Trust

Assets: Vornado bought this aging mall in 2003 for \$145 million and invested more than \$170 million in a makeover. The parent company is considered a strong player with cash on hand to take advantage of acquisition opportunities.

Liabilities: The mall still has lots of vacant space. The shopping center could lose the Filene's Basement store because of Filene's bankruptcy.

Latest leasing coups: Target, Whole Foods, Nike Factory Outlet and Bobby Flay's Burger Palace.

Outlook: Vornado proved if you rebuild it, they will come, and the new stores and eateries are packed. But the recession has hurt Vornado's efforts to fill its remodeled mall.

WESTFIELD GARDEN STATE PLAZA

Parent company: Westfield Group

Assets: It's still THE mall to be in, for both retailers and shoppers, and still draws crowds — about 20 million visitors annually. Vacancies don't last long, and Westfield is constantly reinventing the shopping center, adding a movie theater and entertainment wing two years ago. Westfield has a good credit rating and is seen as well-positioned to ride out the recession.

Liabilities: Americans are ending their love affair with large, enclosed malls, preferring to shop at smaller, open-air centers where they can target the one or two stores they need to visit.

Latest leasing coups: AMC movie theater, Grand Luxe Café, Ed Hardy and Gucci coming in the fall.

Outlook: Considered one of the strongest malls in America. Experts say that even if all the malls die, the Plaza will be the last one standing.

PARAMUS PARK

Parent company: General Growth Properties Inc.

Assets: Viewed as one of General Growth's prime properties because of its location in the North Jersey market.

Liabilities: General Growth filed for bankruptcy last month, putting leasing deals and remodeling plans on hold. Paramus Park had announced plans to build an outdoor "lifestyle" wing attached to the main entrance. The mall faces the vacancy left by the closure of Fortunoff.

Latest leasing coups: Crazy 8 by Gymboree and G by Guess.

Outlook: The shopping center is likely to be in limbo until General Growth's bankruptcy is sorted out. The bankruptcy could mean it will have a new owner in its future, but the

mall is not expected to have trouble finding a buyer if General Growth decides to sell.

THE SHOPS AT RIVERSIDE

Parent company: Simon Property Group Inc.

Assets: Simon is the largest mall owner and recently raised \$3.1 billion in capital to be able to take advantage of the drop in acquisitions. Simon bought Riverside from the now-defunct Mills Corp. in 2007 and completed a makeover designed to re-create it as an ultra-upscale shopping center.

Liabilities: The conversion was completed just as luxury shoppers began reining in their spending. The mall is seeking tenants for a new wing created in the former Bloomingdale's home department.

Latest leasing coups: Rosa Mexicano, P.F. Chang's, Maggiano's, Barney's Coop and Hermès.

Outlook: Luxury sales have plunged faster than other retail segments. Saks, a key Riverside anchor, is struggling. But North Jersey is a very resilient luxury market.

WILLOWBROOK MALL

Parent company: General Growth Properties Inc.

Assets: Like Paramus Park, it is viewed as one of General Growth's premium properties. It has less competition from surrounding malls than Paramus Park.

Liabilities: General Growth's bankruptcy could mean an ownership change, putting leasing and renovation plans on hold.

Latest leasing coups: Apple Store, Cheesecake Factory, P.S. from Aeropostale and a prototype Aeropostale store.

Outlook: The Wayne location is a sought-after demographic. However, the mall depends on its four department-store anchors.

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