Are We Overbuilding: Is Large Gobbling Up Small?

By Bruce P. Hayden, C.R.E.

At the time this article was put together, the word "is" was certainly good and appropriate. By mid-December 1979, two months after Paul Volcker and the Fed changed their whole attack on inflation and in the process substantially dried up the long-term mortgage market, the question might better have been asked, "Will large gobble up small?" As for "is" — currently "is" is not. As Daniel Rose, CRE says, "Money is the one building material for which there is no known substitute."

This country seems to have a profound fear of the BIG whether referring to big oil, big labor, big corporations, or big shopping centers. On the one side of the coin, continued growth to mammoth size can be most accurately regarded as the ability of an enterprise to serve its market well — and on the other side, the bigger the operation gets, the more vulnerable it becomes to the younger, the smaller, the faster afoot, quicker to respond and less well tied up in red tape.

MARKET FOR THE MINI-REGIONAL

The day of the superregional shopping center has come, is here, and is starting to wane. To be successful, the five- and six-department store center of 1,500,000 square feet more or less needs to find an underserved and rapidly growing market area. There will continue to be such areas, and there will continue to be new superregionals created — but today the smart developers and the smart money who are thinking regional at all are thinking about a category the ULI has not invented yet — the mini-regional. These mini-regionals, incidentally, are not going into Houston,

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This paper was presented at the Shopping Centers USA conference and will be published in a forthcoming book by the Center for Urban Policy Research, Rutgers University.

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Los Angeles, Chicago and northern New Jersey — they are going into Columbia, South Carolina; Danville, Virginia; Eugene, Oregon; Springfield, Missouri; Temple, Texas; and other good smaller to intermediate-sized cities that were largely passed over the first time around. This is where the demand and the market are often unsatisfied.

The big regional, and in some cases even the smaller regional, seems to have strikes going against it in all directions. They are a pet hate of the environmentalists, as are the superhighways at whose intersections the superregionals have tended to develop. They are feared and detested by the big city mayors — not necessarily the biggest city mayors, but the mayors of Hartford, Lansing, Fort Wayne, Toledo, Des Moines — all of whom see further development of such centers as further nails in the coffin of their hopes for downtown renewal.

EXECUTIVE ORDER 12044

For the present Administration at least, these mayors have new influence. Witness the recent White House paper on the federal role in shopping center development in the future issued under the heading, "An Urban Conservation Policy." In accordance with Executive Order 12044, the major agencies are ordered to subject major programs and activities to new urban impact analyses aimed directly at strengthening the Central Business Districts by preventing the development of outlying competition. An interagency coordinating committee is to create a task force composed of representatives of HUD, EDA, DOT, the Treasury, and the Small Business Administration. Its efforts are directly to support revitalization efforts, retail and otherwise, in downtown U.S.A. and indirectly, under the guise of fighting urban sprawl, to do everything reasonably possible to discourage regional shopping center development that might threaten or seem to threaten established Central City Business Districts in distressed communities. Everything from highway programs, sewer programs, mass transportation agencies, etc., will be involved with the required urban impact analysis. It will be generated at the request of any city that feels itself threatened, with strong encouragement in the direction of almost a veto power in the hands of the existing city against new centers outside its limits or outside its CBD.

APPEAL OF THE SUBURBAN SHOPPING CENTER

There may be a strong hand of "big brother knows best" in this. After all, the suburban shopping center age has blossomed and prospered not because developers had any power to make people come to their doors, but because they were smart enough to know what the public, particularly the woman shopper, wanted — and then made it available. Even in the late Thirties, the president of a lending institution came to the conclusion that "women do not want to go downtown to shop. They want to shop close to home. Get us into the shopping center business." These were his wise instructions to the Mortgage Loan Department. Most women — from coast to coast — deplore the fact that there is not much good shopping downtown anymore; but, with few exceptions, they would not use it if it were there. Al Taubman's West Farms Mall in the southwest section of West Hartford, Connecticut, for example, has practically destroyed retailing in New Britain, seriously harmed the older West Hartford center, and been a major deterrent to retail revival in downtown Hartford. The women say they do not like West Farms Mall because it is so big, hard to find stores there due to the lack of mall directories, and tiring to walk in; but they can find what they want in the convenience of one-stop shopping.

There are a variety of reasons why shoppers tend not to go to Downtown U.S.A. anymore — traffic congestion, paid parking, perceived threats to personal safety — but the federal answer to all of this is similar to the federal attempts to force the Susan B. Anthony dollars on the public: "We will just give them no alternatives. Big brother knows best."

DOWNTOWN U.S.A.'S FUTURE

Is there a retail future for Downtown U.S.A.? Downtown has been doing a good job recently of finding out what its future is and should be for the last two decades of the twentieth century and the first three of the twenty-first. Successful downtowns are not trying to re-create the downtown retail dominance of the 1920s. Central cities are finding new roles — as centers of community, cultural, recreational, and meeting activities; as governmental and major corporate business centers, with the clubs, the good restaurants, the specialized retail, and the main department store that, much more so than its suburban branches, still carries the flag.

Not only is the pace of creation of new superregionals slowing substantially, but stores of all kinds and, therefore, the centers in which they are located, downtown or suburban, are getting smaller.

The reason for this is very simple — COST. Construction costs have long been leading the cost-of-living index and continue to, and all space users are having to cut back in order to be able to afford new construction. Merchants are finding that they can more effectively use their sales space and personnel in smaller units: a 50% bigger store which may or may not generate 10% more business is a very expensive thing.

TREND TOWARD SHELL SPACE

In an effort to keep costs in line and lending institutions happy, developers of centers big and small are more and more turning over shell space to their tenants, with the tenant responsible for storefront, floors, ceilings, mechanical and lighting distribution, and even the demising walls and their finishes. After this, the merchant has to fixture his store, get his inventory, and provide the working capital necessary to get the whole thing going. This is becoming harder and harder to do not only for the little guys, but for the national chains. Today's money rates, if long continued, change "harder" to "damn-nigh impossible."

Costs are hitting the major department stores as well. They tend to think now not in terms of "bigger is better" but in terms of "less is more." They are going back to 80,000 and 120,000 square-feet stores, whereas before they were thinking of 140,000 to 180,000 square-feet. They do not do quite as much volume, but they take a lot less capital and generate a better return on investment. Even the major department store chains find their resources for expansion severely limited. They may be able to find money for five major stores and ten smaller ones scattered nationwide in a given year. Most have priority lists going several years into the future on things they would like to do, and must select the most promising each year.

COST OF RED TAPE

Aggravating the expense problem is the increasing cost of regulation and approvals for all types of construction. It is a foregone conclusion today that a zoning application will be bitterly fought with the nearby neighbors who do not want it *here* and the environmentalists who do not want it at all, both noisy allies before the zoning board and the courts. Environmental impact statements, which should be but are not yet accompanied by economic impact statements, are time consuming, expensive, and again subject to challenge.

HOW FARES THE NEIGHBORHOOD?

How do the neighborhood strip centers, new and old, compete with the regionals? Very well, by and large. It has long been apparent to students of the shopping center industry that the regionals and superregionals, as a rule, do not affect the neighborhood strip centers too much, unless the latter allow themselves to run out of control and become too big. It has been twenty years or more since the regional center included a supermarket — earlier they had two or three. There may be a superdrug operation, but the neighborhood-style drugstore, still doing a huge business across the country located near a good supermarket, is not found in the regional center.

The tailor, the shoe repair shop, the small gift store, Carvels, Friendly Ice Cream may or may not appear in the superregional or regional center, but they are the service facilities which, together with the market and the drugstore, keep people coming back to the neighborhood strips.

The centers to worry about are those in the metropolitan areas that are classified as community centers — 200,000 or 300,000 square feet, with a supermarket and a discounter or two. If the mass merchandiser is K-Mart and the center is not very large (as the K-Mart centers seldom are), it will probably do fine. When it gets up to 200,000 or 300,000 square feet though, it is far too big to hold its own against the neighborhood center for the everyday needs — and far too small and weak to lock horns effectively with a regional.

CONCLUSION

Two of the most knowledgeable people in the shopping center industry shared these views. The first one limited his comments on the general subject of "Are we overbuilding?" to saying, "I have been asking myself that for the last forty years, and I think at last the answer is clearly yes — but the big are not going to swallow the small."

The second was the late Sidney Greenberg, a trustee of Corporate Property Investors, who said, "Smaller stores and smaller centers generally in smaller cities are the clear trend. I think our shopping center industry is headed for salvation not of its own choice. We are going to be saved not because we are smart, not because we are unselfish, not because we exercise any self-restraint — but by the fact that the cost and lack of availability of money will tend to keep our greed and stupidities under close control."