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Perspectives

## Zombie Malls – Part 3: Bringing Dead Shopping Venues Back to Life Through Multifamily Development – A Hypothetical

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## Abstract

As more retail activity goes online with Ecommerce and given the fact that the U.S. is over-retailed, mall owners/developers are looking for ways to revitalize and monetize their real estate by adding multifamily to create a mixed-use environment. One of the main drivers of this effort is parking reduction, as developers and retailers have come to the realization that most shopping centers are over parked. There are many things to consider when attempting to incorporate apartments in a shopping area, not the least of which are regulatory issues and private land controls of other tenants/users in the center.

In [Part 1](#), this article looked at the over-retailed status of the United States and many malls are dying particularly in the C and D categories, partly because of e-commerce, but mainly through the demise of department stores and other causes for the glut of retail real estate. As mall owners deal with this issue, they are turning to “extension strategies” to not only preserve value and reinvigorate these assets, but also to monetize the real estate and maximize its worth. [Part 2](#) looked at one of those extension strategies, adding multifamily to dying malls and utilizing excess parking is one way of accomplishing that. Changing the mindset regarding parking ratios and retail parking requirements, the effect of zoning and other jurisdictional issues and the control that affected parties like other tenants and owners like department stores have through the operative documents like reciprocal easement agreements and other like documents.

In Part 3 of this article, a hypothetical example to revitalize a zombie mall will be explored, reducing required parking and adding multifamily to the center. This can not only preserve the asset, but it can also make the center more valuable. As more centers lose anchors and become subject to market forces leading to their decline, strategies for making changes to drive these malls to greater viability become critical.

## Hypothetical Example

As an example, if the required parking ratio for a mall is 5 spaces for every 1,000 square feet of GLA, either mandated by zoning code, REA/Operative Documents or both, and the mall is 1,000,000 square feet of GLA, the developer would need to provide 5,000 parking spaces (1,000,000 square feet/1,000 square foot factor x 5 spaces). (See also Kokemuller [\[1\]](#)). Reducing the parking ratio to 4 spaces per 1,000 square feet of GLA would be a 20% reduction.

On its face, it would seem to be a simple calculation to determine the amount of excess parking that can be recaptured from a mall. For every acre of existing parking and the aforementioned 20 percent reduction in the required parking, the developer can reclaim 8.712 square feet per acre of parking back with the ratio change with 43,560 square feet in an acre. However, there are many other factors to consider when assessing how much parking can be recaptured.

The calculation for parking, the effect on the overall shopping center and the ability to add multifamily to the development depends on the angle of the spaces (30, 45, 60 or 90 degrees), and consideration must be given to the size of the spaces provided in the shopping center. [\[2\]](#) For purposes of this analysis, the assumption is that the spaces in the shopping center under consideration are 9 feet x 18 feet or 162 square feet per space), park at a 90-degree angle to the drive aisle and the drive aisles are for 2-way traffic rather than 1-way traffic. (Note: If the shopping

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center owner can get an even further reduction of the parking ratio through regulatory and document changes (see supra), the effect on the land freed up for other uses such as multifamily increases).

However, a general rule of thumb is that a standard parking space requires about 300 square feet, including the space for maneuvering. Based on this estimate, a 5,000 square foot area could potentially accommodate around 30 standard parking spaces. [3] Many authorities require landscape islands, tree proximity to parking spaces, etc., but for purposes of this hypothetical, those elements are included in the green/open space analysis/impervious cover, infra). [4] [5] [6] [7]

With the 300 square feet per space outlined supra, the average amount of parking of a shopping center is 145 spaces per acre (including drive aisles). If a shopping center developer can obtain a ratio reduction from 5 spaces for every 1,000 square feet of GLA to 4 spaces as is the current trend as outlined herein [8], the result is a reduction of 1 space for each 1,000 square feet of GLA (29 space reduction). For every acre of land previously used for parking, this reduction would result in 116 spaces needed instead of 145 (145 spaces – 29 spaces reduced per acre = 116 spaces).

(Note: Shopping center developer/owners may also be able to increase the number of spaces in the remaining parking fields by utilizing so-called “compact spaces” (8 feet x 16 feet) [9] [10] [11], but those spaces are generally limited in number by the AHJ and are not utilized in this analysis. If a center has spaces that are 10 feet x 20 feet, reducing the size of those spaces to 9 x 19 or 9 x 18 can also free up land for development. Additional notes: Some centers have double striped parking spaces, and eliminating the double stripe in favor of a single stripe allows shopping center owner developers to pick up a few additional spaces per acre. See the local Costco parking lot for an example of double striping.) [12]

Another good rule of thumb for a garden variety mall or shopping venue is 10,000 SF of GLA per acre. In the example above, the 1,000,000 square foot shopping center would occupy +/- approximately 100 acres of land. In the 1,000,000 square foot mall scenario and using the 10,000 square feet per acre standard outlined, supra, the physical buildings would utilize approximately 23% of the available land area (43,560 square feet per acre x 100 acres = 4,356,000 square feet of land in the center property; 1,000,000 square feet of buildings/4,356,000 square feet of land in the center = 22.96%).

Most jurisdictions require a certain amount of green space to be maintained, which could include areas for the retention or detention of rainwater in a storm sewer system, landscape islands, buffer areas, etc. Green space is any area not included in impervious cover. Impervious cover is any surface in the landscape that cannot effectively absorb or infiltrate rainfall, including driveways, roads, parking lots, rooftops, and sidewalks. [13]

The amount of green space required varies with the AHJ. (See also the World Health Organization article [14]). Looking at the example of Willow Grove Mall, [15], Upper Merland, Pennsylvania requires shopping centers with 1 nonresidential use when converting to a mixed use by adding residential to an existing nonresidential use to maintain at least 30% green space. [16] (Note: Shopping centers and other property types use creative methods such as green roofs and other such ideas to meet and/or increase the amount of green space provided. Another method of increasing green space in a shopping center is for the developer to buy green space



credit from another use, such as a golf course that has excess green space available or buying land and donating it to the AHJ as a park. These concepts are beyond the scope of this hypothetical and example).

Using the Authority Having Jurisdiction (AHJ) requirements listed in this article, the average amount of open/green space required for a shopping center is estimated at approximately 20 percent. [17] A review of multiple other jurisdictions reveals that this is a good rule of thumb for estimating the amount of open/green space required by regulations for shopping centers. 17

The before and after calculations in the hypothetical example are as follows:

	Before	After
Parking Ratio	5 spaces/1,000 SF of GLA	4 spaces/1,000 SF of GLA
Total Land Area	100 acres	100 acres
Building Area	23 acres	23 acres
Green/Open Space (1)	20 acres	20 acres
Impervious Cover not including buildings, but including parking	57 acres	57 acres
Hardscape not including parking (2)	22.5 acres	20 acres (3)
Amount of Parking Needed	34.5 acres	27.6 acres
Net acreage recaptured		9.4 acres

- See discussion supra.
- Driveways, Ring Roads, sidewalks, patios, service courts, etc.
- Concomitant reduction in hardscape based upon site plan changes, etc.

Recapturing the 20% outlined above, shopping center owner developers could utilize approximately 9.4 acres of parking for multifamily development. Note also that if developers can get a green space reduction through the governmental approval processes outlined supra and with the approval of the parties with controlling interests in the center documents, they can add even more acreage to the recapture total; however, for purposes of this hypothetical, these assumptions were not utilized.

Looking at potential value created through the recapture of parking, apartment developers can build on average approximately 20 apartments per acre for 2 to 3 level apartment buildings (The density per acre can increase if the levels are higher). [18] In this example, 9.4 acres of land recaptured could result in 188 apartment units as part of the mall property.



Assume that half of the units are 1 bedroom renting for \$1,500/month and half are 2 bedrooms renting for \$2,000/month and the vacancy rate is 6.6%, split between 1- and 2-bedroom units.

[19] Here is a breakdown of annual rental income:

Type of Units	Number Leased	Rent/Month	Total Annual Rent
1 Bedroom	88	\$1500	\$1,584,000
2 Bedrooms	88	\$2000	\$2,112,000
TOTAL ANNUAL RENT			\$3,696,000

Using a reasonable cap rate of 5% [20], that is an increase in value of the mall property or a potential sale price for a constructed apartment complex as described herein of just under \$74 million dollars. Certainly, this is a viable way for mall owners to monetize their real estate.

## Conclusion

One solution to the decline of malls is reducing required parking and adding multifamily to the center. This extension strategy can restore and increase viability of the asset and also make the center more valuable. As has been shown through the hypothetical example, adding multifamily not only effectively redevelops the asset, but is a terrific way to increase the value of the asset. In Part 4 of this Article, several case studies adding multifamily to a shopping center will be reviewed.

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