

The Great Outdoors: The Future of Retail?

Granted that, as an owner and manager of open-air centers, we're biased here at NewMark Merrill, but the last year has shown that neighborhood retail projects have some distinct advantages over our enclosed brethren. For one, they're often home to the necessity-based retailers and services, such as supermarkets, drug stores and dry cleaners, which are visited more frequently than the apparel stores that dominate enclosed malls. The huge sales gains seen by home improvement stores in the last year also brought shoppers to open-air centers. They're also easier to drive up to either to enter the store or have online purchases delivered curbside.

The COVID-19 pandemic also favored open-air projects. Only stores with exterior entrances could open at enclosed malls during the shutdowns. Some retailers (with their landlords' blessings) found ways to offer parking-lot pickup of items ordered online. But the experience wasn't the same.

Open-air centers also are fulfilling a need made even more important after a year of being cooped up indoors: the need for sunlight. This has been ongoing for decades before COVID-19. For the last few decades, mall developers have seen the advantages of natural light and air, opening up sections or even entire projects. Last summer, several enclosed malls hosted open-air pop-up cabanas for several of its upscale tenants, and many more opened parking lots for restaurants to serve guests.

Mall landlords have operational challenges and costs, including the need for more sanitizing of floors and customer restrooms and air filtration requirements, that open-air centers just don't have, likely making open-air centers a more attractive investment.

Even some mall mainstay retailers are looking to expand their own options. Macy's and The Gap, among other companies, are exploring off-mall locations to test smaller, more affordable prototypes.

It isn't surprising, then, that data company Placer.ai found that as businesses reopened during the summer of 2020, outdoor centers bounced back closer to normal visitation than malls. The week beginning August 31 saw visits down 24.6% year-over-year for outdoor, while enclosed centers experienced a 37.2% decline from the prior year.

Make no mistake: the mall isn't going away. It's adapting to a new reality that likely will see fulfillment centers, office buildings or even residences occupying former department store spaces, and more services taking over shuttered apparel stores.

But open-air centers have proven their mettle over the last year, and are poised to become even more of a market's town core than they already are.