

SHIFTING SHOPPING - Market Competition Mall vs. lifestyle centers

Mar 14, 2004

Spring Hill Mall prepares for wealth of competition; how it will hold up is open to debate

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Published in the COURIER NEWS March 14, 2004

WEST DUNDEE - This week's opening of a Barnes & Noble in Spring Hill Mall comes not a moment too soon.

More than 20 years after it laid waste to downtown Elgin, the mall is itself facing intense new competitive pressures.

Topping the list of potential threats to Spring Hill's retailers and its owner, Chicago-based General Growth Properties Inc., is the 600,000-square-foot Algonquin Commons.

Scheduled to open in October at Randall and County Line roads just a few miles from Spring Hill, the Jeffrey R. Anderson Real Estate Inc. project will feature dozens of stores, including a Borders, Talbots, Old Navy, Abercrombie & Fitch and Victoria's Secret.

Like its Geneva namesake, Algonquin Commons is what retail insiders call a "lifestyle center." The term refers to malls that are typically upscale, have an open-air, town-center feel and feature a mixture of stores, restaurants and entertainment options. Other local examples include Deer Park Town Center and The Glen Town Center, both in the northern suburbs.

It's a concept that has been gaining in popularity. Nearly a third of the more than 100 lifestyle centers now in existence in the United States have opened in the last two years, according to the International Council of Shopping Centers, or ICSC.

"Accelerating growth in the number of new lifestyle center openings in recent years has kept the industry spotlight firmly on this genre of shopping centers," reports retail analyst Michael Baker.

Profit centers

Among the reasons is their profitability. Sales per square foot at lifestyle centers are nearly 25 percent higher than at traditional malls like Spring Hill, according to the ICSC.

The ICSC defines a mall as an enclosed shopping center of more than 300,000 square feet that has two or more large department-type stores.

And while lifestyle centers surge, the number of traditional malls has declined steadily. Nationwide, just 1,130 are left, down from an estimated high of about 2,500.

Panelists at a recent conference on retailing held by investment bank Bear Stearns estimated that ultimately, fewer than 600 malls will survive.

Numbers like those mean General Growth is taking a keen interest in Algonquin Commons, says Chicago-area retail consultant John C. Melaniphy III of Melaniphy & Associates.

"They're certainly keeping an eye on the tenant mix at Algonquin Commons," Melaniphy says. "They're going to have to take action to distinguish themselves."

In the back of many minds is what Melaniphy describes as the huge impact that Geneva Commons had on Charlestowne Mall in St. Charles.

"It whacked Charlestowne," he says. "It really did."

Nor is the commons the only new retail development coming to Algonquin. Located just across Randall Road, the Galleria Center won't open until the summer 2005, and full build-out likely will take more than five years. But in the end, it's expected to house about 1 million square feet of retail, making it as large as Spring Hill.

The center will have a "main-street feel and design, with most of the tenants being smaller specialty stores," says Jeff Mihelich, Algonquin's assistant village manager. "We expect a lot of the competitors of the Algonquin Commons tenants to open in the Galleria."

Good management

With so much competition in the pipeline, it's hard to predict how Spring Hill will fare in the future.

On the plus side, General Growth Properties is one of the giants of the mall-management game, with more than 170 centers under its control and an enviable track record. Overall profits jumped by 25 percent in 2003, and the company's stock has nearly doubled since the beginning of last year.

What's more, the arrival of Barnes & Noble - as well as that of Home Depot, which is slated to fill the long-vacant Springhill Theatres site on the mall property's north side - suggest the company is well aware that change is necessary.

"One of the biggest advantages we have is General Growth," says West Dundee Village Manager Joe Cavallaro.

Melaniphy concurs.

"If I were a resident of West Dundee, I would be comforted that General Growth is the owner of Spring Hill," he says.

Comforted, but not blindly optimistic. In a recent research note, Banc of America analyst Lee Schalop stated that he remains "concerned about competitive pressures on the company's moderate malls as consumers divert spending ... away from traditional venues such as mall stores toward discounters," such as Wal-Mart.

General Growth's typical tenants are mainly healthy. But KB Toys, Wilsons Leather and Gadzooks, all of which have a Spring Hill store, have been experiencing financial difficulties, according to Deutsche Bank Securities Inc. analyst Louis Taylor.

Empty stores

At least a half-dozen stores stand empty at the mall, and several others, including Gadzooks, are holding going-out-of-business sales.

Some are closing because of shifts in corporate strategy.

Chad Jackson, assistant store manager at Anchor Blue, said the West Coast-based company is closing all Midwest outlets.

Alfredo Rayos, a clerk at a Nextel phone counter at Spring Hill, calls it "a dying mall."

"It started to go downhill after Geneva Commons," he says. "Even I shop in Geneva Commons."

Lori Piper, co-owner of Art and Frame Express, is moving her store to Rockford to be closer to her home. She says Spring Hill is well-managed, but she acknowledges that shoppers are flocking to the big-box stores that line Randall Road.

"Malls in general are kind of in transition now," Piper notes. "I really just feel that shopping patterns change every 20 years or so and you just have to adapt."

Perlman Fine Jewelry recently fled the mall for a nearby location along Illinois 31 after its sales slid by nearly a third between 1998 and 2002.

The news that Marshall Field's is up for sale would seem to add to doubts about the mall's viability. Nevertheless, sales at Field's stores open for at least a year, which declined in 2003, have turned positive in recent months. Similarly, sales at fellow Spring Hill anchors Sears and Kohl's have headed upward after tough holiday seasons, and J.C. Penney stores also posted a solid fourth quarter.

Important to village

Pinpointing the mall's performance in recent years is tricky. But village officials estimate Spring Hill shoppers account for well over half of West Dundee's retail spending, which means local sales tax figures provide one clue.

Much of the apparel buying in West Dundee occurs at Spring Hill. The total value of such sales declined by 14 percent between 1998 and 2002. The trend continued in 2003.

Similarly, overall retail sales in West Dundee have been flat or falling for several years. In 2003, retail spending was lower than in 2002 in nine of the 11 months for which data is available.

The sluggish economy could be partly to blame. But consumer spending has in fact been remarkably durable. As of mid-January, the U.S. Department of Commerce was estimating that nationwide retail and food sales grew by more than 5 percent last year.

One thing seems certain when it comes to Spring Hill's future: with local population and income levels on the rise, retailers will continue to flock to the northern Fox Valley.

Average household income within a three-mile radius of the mall increased by more than 50 percent between 1990 and 2002, reaching \$72,000, according to Claritas Inc.

By 2007, the figure is expected to hit \$84,000.

Staff writer Teresa Black contributed to this story.