



**By Rick Tobin**  
Real estate financier  
First Financial Bancorp

# Fun Adds Serious Value to Shopping Centers

Thriving malls offer consumers more than just retail stores

For many Americans, large retail shopping malls have become comparable to amusement parks or playgrounds over the past few decades. Many people spend substantial free time at these malls, which have evolved into a new type of entertainment center for consumers during boom and bust economic periods. The status of these properties as all-around entertainment destinations, not just outlets for consumer activity, makes shopping centers a lucrative niche that commercial mortgage originators and investors shouldn't overlook.

Even during economic downturns, people spend large amounts of money at shopping centers, often as a form of escapism. The money spent is not always for goods, however. Dining options and entertainment such as movies and arcades are often end destinations in themselves for consumers.

## The entertainment factor

The contemporary shopping centers that succeed as popular entertainment destinations may be either enclosed indoor or outdoor retail malls. Enclosed malls are becoming less common in this sector, however. Almost no new enclosed malls have been built in this country since 2011, although many existing high-end indoor malls with upscale stores are thriving.

Whether indoors or outdoors, these malls usually offer a vast combination of retail stores, movie theaters, video arcades, restaurants and other attractions that encourage shoppers to spend several hours at the center. The more time people spend at these modern shopping malls, the more likely they will spend money at any of the complex's stores, even if their original purpose for visiting was not to shop.

One of the forerunners and most successful examples of this type of upscale multipurpose shopping complex is the Forum Shops at Caesars Palace in Las Vegas. The mall is located indoors, adjacent to the main Caesars Palace hotel and casino, but has a virtual sky with clouds painted overhead, giving visitors the sensation of being outdoors in the middle of the day, even at midnight.

The Forum Shops mall demonstrates how lucrative these high-end modern shopping centers may be for their owners. It is rated among the 10 most-profitable shopping centers in the world, and generates a sales-per-square foot rate of nearly \$1,750, a greater amount than legendary shopping district Rodeo Drive in Beverly Hills, Calif. Much of its success may be attributed to its status as a destination where visitors spend a significant amount of time.

## Restaurants

Restaurants are another key factor in the movement from old-fashioned, retail-only shopping centers to modern, upscale malls that function as entertainment destinations. From the 1950s through the 1970s, conventional wisdom was that many retail-store owners did not want a restaurant within the vicinity of their store in a shopping mall because they were concerned that dining establishments might lure away some of their potential shoppers.

Over the past few decades, however, an increasing number of shopping-center owners have taken the opposite view, realizing that multiple restaurant choices may attract many customers who have the potential to turn into shoppers at the adjacent retail stores. Restaurants historically have

paid higher leasing costs than retail stores in shopping centers, which also makes them attractive tenants to owners.

Restaurant dining accounts for nearly half of all money Americans spend on food sales. In recent years, about 130 million people visited a restaurant on a daily basis. This multibillion-dollar dining industry is a powerful lure for consumers, driving many shopping-center owners to add restaurants as integral attractions of their complexes.

## Employment and revenue

According to a report by the International Council of Shopping Centers (ICSC), by the end of this past year, the sector consisted of nearly 7.5 billion square feet of gross leasable area located in more than 114,000 shopping centers.

The shopping-center sector has a major impact on U.S. employment. Nationally, it accounted for more than 12.6 million jobs as of this past April, according to the ICSC. Based on Bureau of Labor Statistics employment data for this past April, this total represents nearly 9.1 percent of all non-farm jobs in the United States. The average shopping center creates more than 110 jobs.

continued >>

**Rick Tobin** is a real estate financier at First Financial Bancorp. He has had an experienced and diversified background in real estate and financing for more than 25 years. He has been published nationally in magazines, newspapers, websites and newsletters. Tobin also appears as a primary guest on television shows. Tobin and his associates can finance residential and commercial properties around the U.S. with debt, equity and mezzanine money. Visit [thecreditcrisis.net](http://thecreditcrisis.net). Reach Tobin at [rtobin22@gmail.com](mailto:rtobin22@gmail.com).

---

<< continued

Major shopping centers make up a large percentage of overall retail sales and generate healthy tax revenue. Per the ICSC, U.S. shopping center sales reached \$2.4 trillion in 2012 — more than half of that year's total retail sales of \$4.36 trillion. State sales-tax revenues for shopping centers across the country generated \$137.6 billion in 2012, with shopping-center property-tax revenues about \$22.4 billion.

### Premium locales

Although a large number of national chains and mom-and-pop stores have closed in recent years because of the recession, online shopping and other factors, well-heeled consumers continue to shop at a prolific clip at premium shopping centers and their up-scale stores.

Investors in the high-end shopping-center niche who have the capital resources or geographical access to operate in the most premium retail space will find rental rates have increased significantly. For example, as of this past October, Fifth Avenue in New York was the most expensive retail street in the country, with average rent reaching \$3,052 per square foot, according to Colliers International.

Only a handful of the top shopping districts command rental rates in the four-digit range, but many of the most expensive retail locations in the country have experienced double-digit rental-rate percentage increases despite the sluggish U.S. economy, led by Philadelphia's Walnut Street premium shopping area, which experienced nearly 34 percent growth in asking rents this past year.

### Positive trends

The good news for investors looking to get into this sector is that with the post-recession recovery, there are signs of increasing availability of capital in recent years to build, purchase or refinance these large shopping center complexes. The real estate investment trust (REIT) market has become a major buyer and funding source for these modern shopping centers. Nearly 25 percent of REITs are retail-focused, and the three leading mall REITs have hundreds of properties apiece.

In the years prior to the recession and credit crisis, U.S. consumer confidence and retail spending were at or near record highs. Because of the recession, consumer spending fell dramatically, causing many retail shopping centers to implode. As the

economy has recovered, consumer confidence has risen, reaching its second highest level since 2008 this past May, an encouraging economic indicator for retail spending and the shopping-center sector.

Another trend working in favor of modern shopping centers, especially in large urban areas, is that the U.S. population has been shifting toward the country's metropolitan areas, especially since the economy started its post-recession recovery. Consumer spending inevitably will follow the population shift, which is good news for shopping centers located in large population centers.

• • •

Commercial mortgage professionals and their clients who focus on quality retail shopping centers may be pleasantly surprised to find opportunities that offer solid positive-cash-flow deals and are genuinely fundable, more so than many small retail strip centers, which often struggle to remain solvent. As long as consumers continue to look for entertainment in addition to their shopping needs, premium retail shopping centers will remain lucrative options for mortgage professionals and investors. ●