

Retailing Through The Modern Shopping Centre: Principles And Trends



Douglas R. Annand

**Vice President,
Larry Smith &
Associates Ltd.**

Douglas R. Annand is Vice President of Larry Smith & Associates Ltd., the Real Estate Consulting Division of The Coopers & Lybrand Consulting Group, a firm in which Mr. Annand is also a Principal. Mr. Annand entered the economic and real estate consulting field in 1974, and has since conducted a wide range of professional consulting assignments for both public and private sector clients, specifically in the area of shopping centre development, downtown and inner city redevelopment, retail chain strategy analysis and commercial impact studies. This extensive experience has been gained in a period when the retail and real estate industry has undergone a period of significant change.

This article deals with recent trends in retailing in metropolitan areas, in smaller communities and in downtowns. In general, a number of topics are discussed which include:

- The history or evolution of the shopping centre as a vehicle for retailing; from its beginning as the linking of a few stores in a small unified strip, to the major enclosed regional centres, which are now becoming more than a place to shop, but a total entertainment centre;
- The various types of centres and what makes them regional in nature in both larger metropolitan areas and in smaller towns;

- Specific retail opportunities in smaller communities and in downtowns and some of the problems faced by downtowns and these smaller communities; and
- The major changes happening in the retail industry and some new emerging trends and vehicles for selling goods and services.

First, the characteristics of the typical regional shopping centre and how they began. The shopping centre has been perhaps the most successful land use, development and retail concept of the 20th century. The shopping centre has been to the 20th century what the department store or large general merchandiser such as Eaton's or Simpsons was to the 19th century. These department stores still play a major role in regional shopping centres, but today to a lesser extent. Shopping centre owners and developers are now faced with creating new types of anchors for their projects that have made department stores less important as major drawing cards.

The shopping centre is basically a creation of suburbia and remained as such until the late 1970's. As cities expanded, the shopping facilities located in the downtown areas were too far away from their potential customers. Consequently, retail facilities had to be provided in closer proximity to growing suburban populations. Hence, the regional shopping centre. Only in recent years has there been renewed interest in downtown centres and in smaller markets. The Eaton's Centre in Downtown Toronto, which was actually initiated from a planning perspective in the 1950's, has sparked renewed interest in the downtown shopping centre. Also, many smaller communities are beginning to develop their own smaller scale versions of Eaton's Centre in an effort to help revitalize their downtowns.

Whether in suburbia or downtown, there are a number of important elements that make a shopping centre substantially different from traditional retail developments such as the original European or Middle Eastern markets or the traditional downtown cores common to all Canadian cities. The characteristics separating shopping centres from these retail predecessors include:

- A unified architectural treatment providing space for many different tenants who are selected and managed as a unit for the mutual benefit of a single landlord who develops and manages the project for all tenants.
- Shopping centres are also easily accessible to the population living within their market, whether it be

vehicular or pedestrian traffic. In fact, the shopping centre is in part a creation of the controlled access expressway and it is unlikely to find many successful regional shopping centres which are not located at a major expressway interchange. Today however, proximity to transit facilities is also important and particularly for downtown centres or projects at inner city locations.

- Sufficient parking must also be provided in these centres to meet the expected demand generated by the retail stores in the project. Parking is a science and its arrangement around the project is important in distributing pedestrian traffic to maximize exposure and access to all stores and to provide acceptable walking distances from parked cars to centre entrances and individual stores. If stores are too far away, customers just won't visit them.
- Shopping centres also have centralized service and delivery facilities which are screened from customers.
- Site improvements for a shopping centre such as signage, landscaping, lighting are all done in a consistent manner to create a unified theme and in many cases these site improvements are regulated by the municipality.
- Specific tenant groupings are often established in the centre to create anchors. This promotes merchandising interaction between all stores. An attempt is also made to provide the widest range of merchandise possible within the size of centre permitted. This need to maximize the range of goods and tenants available in the centre increases the overall attraction by providing comparison shopping opportunities.
- Also tenant mix is important to centres and is a science. The right amount of certain store types to match market needs is important to the overall attraction of the shopping centre. For example, if the centre is located in a high income market, higher end specialized fashion stores are normally provided. Also, the location of certain store groups within the centre is important in creating customer flow. For example, the high fashion stores in a two-level centre are concentrated on the floor where fashion in the major department stores is located. This creates additional attraction. Centres are also normally laid out with the segregation of fashion stores from discount stores. Tenant layout also maximizes interaction between different stores or areas of the mall and creates both vertical and horizontal customer flows.

These are the important factors which make a retail development a shopping centre and different from traditional retail concepts. In order to better understand what a regional centre is it is important to compare it to the other types of centres.

1. Neighbourhood Shopping Centre

This type of facility provides for the sale of convenience goods such as food and drugs and other personal services which meet the daily needs of the immediate neighbourhood. The primary anchor in this type of centre has typically been a supermarket and the total size of centre ranges from 50,000 square feet to 100,000 square feet. Centres of this type normally are strip centres (not enclosed) and are located on arterial or collector streets, often at the entrance to the neighbourhood which they serve. The population or market threshold, which largely reflects the population or market required for the supermarket, would range between 10,000 to 15,000 persons.

Historically, a second type of smaller centre, and smaller than the neighbourhood centre, is the strip convenience centre, with between 10,000 and 15,000 square feet, where the major anchor might be a drug store, but most likely a convenience or jug milk store. Other stores in this centre might include: a series of specialty food stores like a bakery, deli or cheese shop, as well as the odd specialty store such as a florist, hardware store or a host of service outlets.

2. Community Centre

This type of centre is normally anchored by a discount or promotional department store and a supermarket. In Canada, these discount department stores include: Woolco, K-Mart, Zellers and Towers. These discount stores may also locate in regional centres, but normally are in addition to at least one traditional full-line department store like Eaton's, Sears, Simpsons, The Bay, or Woodwards in Western Canada.

Now however, newer types of tenants are becoming anchors for community centres such as home improvement centres like Beaver, home and auto centres like Canadian Tire and of course the large super store supermarkets like Loblaws Superstores, which have up to 100,000 square feet and by their size alone, create a substantial market draw.

The community centre is basically the in between centre, between the regional and the neighbourhood facility. They generally range in size from 150,000 to 300,000 square feet and serve a market of between 30,000 and 50,000 persons.

The community centre is also the most vulnerable to competition since the large regional centres by their size and range of goods have a substantial impact on this type of centre. Consequently, when developing a community centre, it is important not to duplicate the store types included in the regional centres nearby. It makes more sense to put in stores, which are complementary instead of those in direct competition with other centres.

3. Regional Shopping Centre

Are characterized typically by having at least two full-line department stores, which are stores with a minimum of 100,000 square feet. As previously mentioned, these department stores include: Eaton's, Simpsons, The Bay and Sears, all stores which are known as the traditional department stores.

In the past, these large stores have been the major attraction for regional centres, and have helped draw customers from a large regional market. By placing these stores at either end of an enclosed mall, customers are drawn from one end of the mall to the other, therefore being exposed to the specialty stores located between these major magnets. This is why department stores are traditionally offered lower rents when compared to the specialty stores which actually subsidize the department stores because of the larger store's ability to attract customers to the centre. In recent years customers have been shifting their expenditures to the smaller specialty stores that are now able to offer better service and credit (once only available at department stores) at competitive prices. Today department stores are not the only attractors to regional centres, but a substantial assortment and variety of smaller specialty stores and services can act as major attractions on their own.

4. Super Regional Centre

Are larger regional centres which offer more than two department stores. Examples in Canada include Square One in Mississauga, which will eventually expand to five department stores, Scarborough Town Centre and the West Edmonton Mall, with five department stores.

With the large range of stores and services offered in the super regional centres, these developments are actually attempting to produce the shopping facilities once available only in downtowns. In size, traditional regional centres in major urban areas range in size from 500,000 to 1,000,000 square feet, depending on the size of market served. Super regionals are much larger. For example, if we consider the entertainment facilities and hotel in West Edmonton Mall, this centre is close to 5,000,000 square feet. This is much larger than many existing downtown areas in Canada.

Regional centres are found mainly in major urban markets. But a regional shopping centre can also exist in a smaller town. This town probably serves a rural hinterland and acts as a service town for surrounding rural communities. A community does not have to have a West Edmonton Mall or an Eaton's Centre to have a regional facility. Any development that has a range of retailers with the ability to retain or keep dollars within the community and attract additional business from the

outlying market can fulfill a regional role. This centre in a small community could be as small as 25,000 square feet, if it has the right tenant mix and character.

Where should these centres be located in smaller communities? Ideally, this new retail development should be placed in the downtown core, which in many towns and cities in Canada suffer from the competition created by a suburban centre or a major commercial project in a neighbouring community. In addition, downtown merchants often become complacent, due to their historic captive market and consequently they can lose market share to other communities or centres.

A new shopping centre in a downtown area can provide the stimulus needed to build up the area again and create productive competition. This new centre may also help retain dollars in the community that would otherwise leave because people can't obtain the goods and services they require.

What type of centre should be put in the downtown of a smaller community? It can be any size depending on the market and it could be a strip or enclosed facility. If it is enclosed however, it is important to make sure that the project is open to the street. It must not turn itself inward and move the street indoors, but must interact with existing stores and services in the downtown core or it can create more harm than good.

It is also important to establish the right tenants for this type of project. They must be new stores in the community. Examples could be more specialized fashion stores, home furnishing facilities not now available, perhaps a department store or something like a Sears mail order. The key is that these stores be different and provide additional shopping options. This helps retain sales in the market for the benefit of all retailers, including the existing merchants in the downtown core. These new stores will also help increase the attraction of the town for people living in the surrounding secondary market. The fact that these stores are different also minimized the impact on existing retailers.

A downtown location for this new development may not be available for a number of reasons including:

- the downtown merchants' fear of competition. Consequently opposition from this group limits the opportunity for developing downtown;
- parking may be limited in the core and therefore expensive parking structures are required;
- higher land costs in the downtown versus the suburbs, and limited site sizes or limited availability of land, may also make this option impractical; and
- the downtown core may be laid out in such a configuration that a development may create more harm than good. For example, a very linear downtown

with a new centre at one end can have substantial impact on the opposite end of the traditional commercial strip due to the walking distances customers must travel to the new facility. On the other hand, a compact downtown with a new centrally placed facility is more likely to be successful in stimulating rejuvenation of the existing core.

With the potential problems of developing a centre in the downtown core it may be necessary to build the new centre on the periphery. The developer may actually prefer this location due to higher downtown land costs, better accessibility of the suburban location and the availability of land for parking.

If a suburban site is selected it is important to ensure that the site is at a location with good access to the downtown core. This provides the opportunity for residents living in the regional market who are attracted to the community, to shop in both the downtown and the new centre.

Also, when a suburban shopping centre develops in a smaller community, there is usually a substantial increase in the total amount of retail space. This could potentially create impact on the core. Therefore, the core area often must become something very different. The shopping centre will probably have most of the major chain stores and therefore, the downtown must concentrate on becoming more unique and more specialized, with more specialty stores, boutiques and perhaps more services. Downtown must create its own unique image or theme, which can successfully compete with the suburban centre by capturing the additional traffic attracted to the community by the new regional facility.

The key for any downtown area is to face the new competition in a positive way by creating a new market niche and attempt to benefit from the increased drawing power of the community created by the new competition.

It is also important when looking at the retail situation in various communities to be aware of current trends in this area. Some recent trends in retailing and shopping centre development are outlined below:

1. Some of the most significant changes in retailing have occurred in the food distribution industry. The traditional supermarkets operated by chain stores such as A&P or Loblaws and comprising approximately 25,000 square feet or less are no longer economically viable. The increase in the size of individual supermarkets has been dramatic in recent years, growing to 45,000 and 50,000 square feet and more and recently to 60,000 to 90,000 square feet and larger. In fact, Knob Hill Farms has recently opened a store in excess of 200,000 square feet. These larger stores tend to be free standing and

do not form part of a shopping centre. They also tend to serve a much larger market base. In fact, these centres are becoming retail nodes with community or even regional shopping centre drawing power. With their increased size, these superstores are selling more non-food merchandise and one chain, Loblaws SuperCentres, are now as large as 140,000 square feet and up, with only 60% of their space devoted to typical food store merchandise. This particular store is finding its drawing power so substantial, that it is now leasing space to other specialty tenants, who are locating in a mall attached to the SuperCentre. These facilities are in effect becoming community shopping centres on their own.

2. The second major change in the food store industry is the emergence of the ethnic supermarket, which is frequently a large fruit and vegetable store ranging in size from 30,000 to 40,000 square feet. Such stores include Longos or Sunkist in the Toronto market which are now moving from just fruit and vegetables to more varied product lines, including meat.
3. The third change is the development of the "market" concept, consisting of many specialty food stores grouped together. These markets are now even located in the suburbs. Farmers markets have been located in most city centres for years. The new markets however, have a large selection of specialty food retailers rather than farmers. These markets can actually take the place of traditional supermarkets in regional shopping centres. Supermarkets have been suffering lately in regional centres and are often being replaced by a large number of smaller specialty stores. This also increases the rent generated to the developer, who received lower rents from the traditional supermarket.
4. The department store industry has been suffering of late. Their level of current profits or in fact losses have lead to a change in priorities for these major stores from an interest in new locations to urgent attention to improving the operation of existing facilities. Therefore, these chains are making few commitments to new shopping centre locations, consequently few regional shopping centres are being built.
5. The limited expansion opportunities presented by these department stores have forced developers to find new vehicles to sell goods and services and provide anchors for their centres. It is not unusual to see centres anchored by stores such as Toys'R'Us, major drug warehouses, home improvement centres or home and auto centres like Canadian Tire.

6. Also, many regional or community centres which were built in the last 30 years are in definite need of revitalization. Markets are dynamic and the characteristics which influenced the design or tenant composition of a centre years ago have now changed. The population of the area has aged, often moved away, changed its income characteristics and expenditure habits, and new competition has entered the market, resulting in limited potential for sales growth for the existing stores in the centre.

Therefore, a major trend in the shopping centre industry has been to reassess the market characteristics and competitive factors operating in a centre's trade area and modernize, expand and change the tenant mix of the centre to regain lost market share.

When centres are being remerchandised or even when a new centre is being built, it is recognized that there has been a definite change in the space requirements for individual retailers. This trend to a large degree has been created through escalating rents which have forced retailers to build smaller and more efficient stores with support services and warehousing often provided offsite in cheaper premises. Therefore, many more stores can be accommodated in existing centres, when they are remerchandised, and the increased range of goods and services increases the overall attraction of the shopping centre and therefore its overall productivity. Therefore, in some ways, higher rents have been beneficial in forcing retailers and shopping centre developers to be more efficient.

7. In recent years there has also been a trend to new and very large specialty stores, not necessarily associated with traditional shopping centres, though they can act as anchors for these centres. Some of these facilities are actually located in industrial areas, where land costs are cheaper, if zoning restrictions permit it. Some of these stores include: the large furniture stores like Ikea, Leon's and others, large hardware stores such as Pascal's, the toy stores such as Toys'R'Us and of course the large drug warehouses, which sell a substantial amount of food, like Howies and Hy & Zel's.
8. Regional shopping centres were initially developed as single use facilities, comprised mostly of retail and service uses. However, developers learned to appreciate that shopping centres with their excellent access characteristics, superior in most cases to downtown cores, were able to generate sufficient traffic and create opportunities for other land uses such as professional offices, hotels and entertainment facilities. Consequently, regional centres have often been developed as the downtown or town centre for newly developing suburban communities. Other community services such as

libraries, hospitals and schools may also locate in close proximity, with higher density residential uses such as condominiums and seniors housing as well. Examples of this type of development are Square One in Mississauga and Scarborough Town Centre in Scarborough.

9. Obviously the shopping centre has changed over the years, it is no longer just a place to shop, but also a place to be entertained. This concept started with the introduction of food courts and restaurants and has now gone to the extreme like West Edmonton Mall and Woodbine Centre where the Midway or Fantasyland and other entertainment facilities act as additional anchors or attractions to the centre. Whether these entertainment areas are profitable on their own is questionable but their effect on increasing mall traffic is said to be substantial.
10. Also anchorless centres like theme centres. The theme centre in most cases is a smaller centre developed around a historical theme or type or merchandise. Centres of this type include smaller upscale fashion centres, which were historically, only located in upper end inner city areas. This is not a locational requirement anymore as these centres now locate in higher income suburban areas, as well. Other theme oriented projects include: home furnishings oriented projects, and other types of projects such as automotive campuses, where a large number of car dealers and service facilities group together in one location. Also the restaurant campus, provides a major attraction on its own through the grouping together of a large number of restaurants and fast food facilities.

The nature of the shopping centre and retail industry is continuously evolving. Consequently, there will always be need for new facilities in different shapes and forms to respond to changing market requirements and new competitive forces. In the retail industry it is essential to monitor those changes if retailers and developers are to remain competitive. It is also important for communities to understand these changes if they are to evaluate the need for or impact of new developments that are coming to their communities.