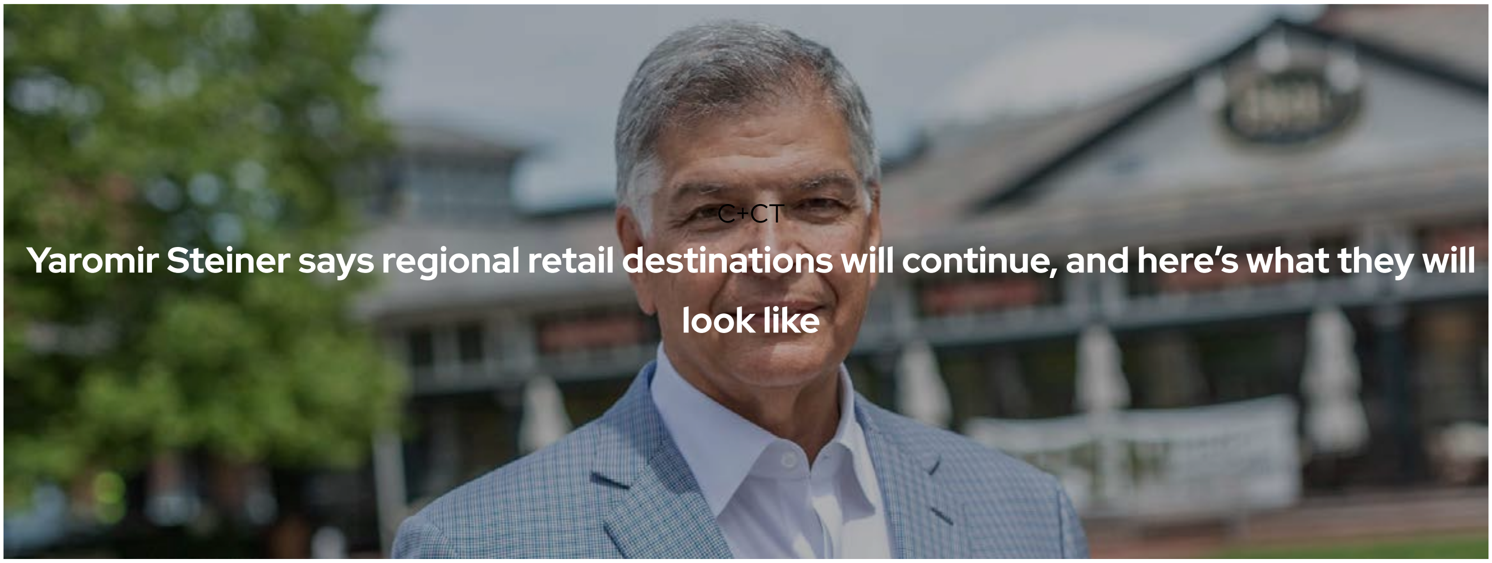

C+CT

Yaromir Steiner says regional retail destinations will continue, and here's what they will look like

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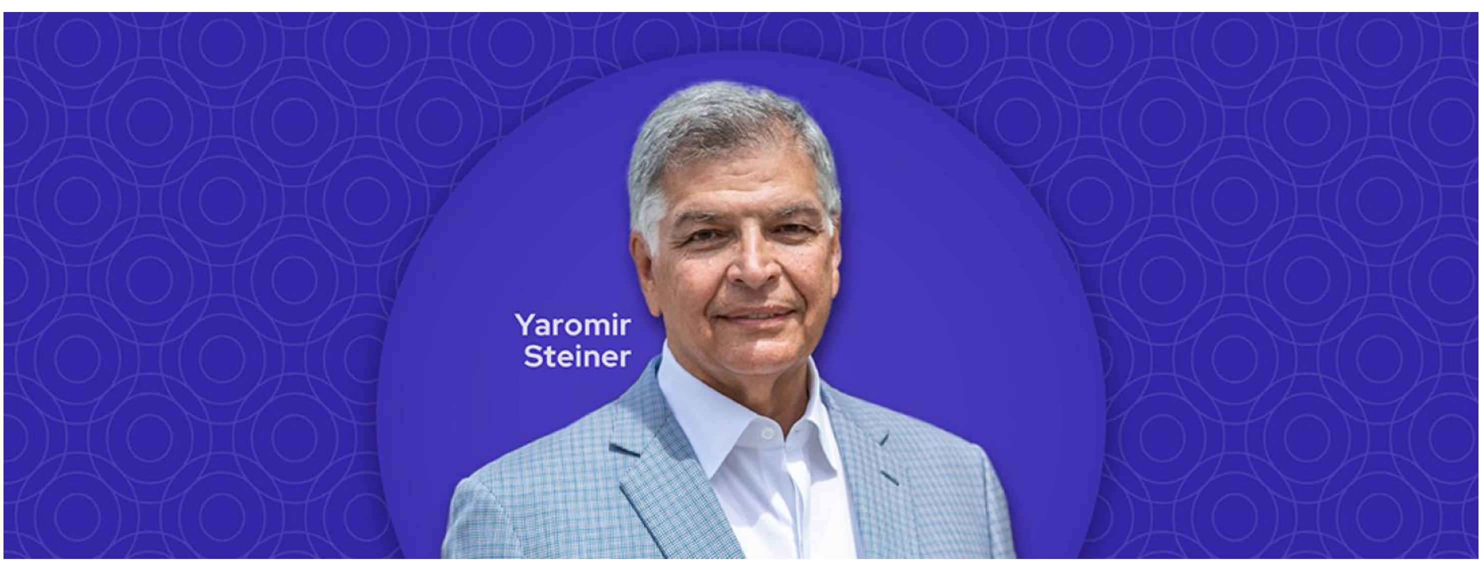
Over the past 24 years, Steiner has developed more than 7.4 million square feet of mixed-used space, including Columbus' famed Easton Town Center, which resembles a small city with its more than 190 retailer, dining and entertainment venues; 5 million square feet of office; and four hotels and attracts more than 2 million visits a month. Commerce + Communities Today contributing editor Rebecca Meiser talked to founder and CEO Yaromir Steiner about enclosed malls, why landlords need to think more regionally and why redeveloping with curated merchandizing in mind is key.



We've all read forecasts that enclosed malls are dead, that they don’t serve a purpose anymore in this age of efficiency. What are your thoughts?

Malls represent a very small portion of the brick-and-mortar business. They may be a very visible portion of it; that's why people like to talk about malls. In total retail square footage, malls represent probably less than 10% of the total brick-and-mortar space, so one component may be withering but there’s this whole other component that is blossoming. As to the question of whether the model of an enclosed mall with the department store as an anchor is dying — well, one thing I can tell you: You cannot build a new one today. There are no department stores to anchor it with, and I'm not sure even the retailers would sign a lease inside an enclosed traditional mall. The notion of a regional retail destination which is enclosed and anchored by department stores — I think this era is over. That doesn't mean that there will not be regional retail destinations, but their format will be different.

What will a successful regional mall format look like?

The future regional retail destinations will have an important leisure-time component spread throughout the project, which will act also as an anchor and as a traffic driver, which department stores used to be. The second aspect, which is related to the first observation, is that these regional destinations will need to have a very significant outdoor component. You might ask: What's wrong with an enclosed leisure-time destination? Well, look at your personal experience. When you say, "Let's go out tonight," even the expression — it's to “go out.” You go out when you go to celebrate, to be with friends, to do things. You don't go inside. Thirdly, in my opinion, the design of the place has to follow generally accepted urban design principles: There are plazas, there are squares, there are streets. They feel natural. It's not a mall where you just remove the roof; that doesn't feel real. Then, obviously, it has to be merchandised in a coordinated fashion. Every time the environment is not coordinated, the high rent payer chases away the low rent payers. You cannot have a mall only made of jewelry stores who can pay maybe the highest rent, for instance.

You’ve called these curated merchandising mixes “organized retail environments.”

You create an experiential environment; when a customer walks in, she feels, “this place feels good.” Then, you organize a merchandising strategy: where you put your anchors, which are your leisure-time uses or your destination tenants. A Restoration Hardware store can be an anchor, for instance. Some unique stores can be also anchors. Then you put the rest of your tenants in. The merchandising mix is important. It needs to be responsive to the needs of the local community and have some logic to it. For example, you put Smith & Wollensky next to Tiffany's or Louis Vuitton, but then if you want to have a Flip Side burger, you put them next to Banana Republic or to J.Crew. Then you do some activation to make the place come alive.

Does this organized retail environment work for all shopping centers?

No. The first thing I tell people before we talk about shopping centers is: "Let's talk about the different kinds of shopping we do." I organize shopping into two major categories. Need-based shopping: You are going to go buy bread, butter, milk, underwear or gas or dry cleaning. Then you have want-based purchases. You are going to go buy a bag at Michael Kors, for instance. The big difference between need and want is that need is the first dollar coming out of your expenses. You start with that. The big chunk of our budget when we buy retail expenses are need-based purchases. Then, what's left over, the discretionary spending, is want-based purchases. Because every household has need-based purchases, we need need-based shopping centers everywhere. Now, want-based purchases are for the elite, for the people who have money. There are fewer of them, and there's much less money for want-based purchases. A want-based environment has to be regionally accessible because if not, there are not enough want-based dollars to spend. You have to attract people from long distances. There are two very different rate models and different financial models on how they function.

What can developers take from that?

If I am a need-based shopping center developer, that means I develop power centers. Everything is very methodical, analytical. You look at your demographics, you pick your locations and you work with the best tenants who are available. There's not much change in that business. On the other hand, if you are in the business I am in, the opportunities are much more limited now and you need to cherry-pick. You need to find the ones who are still located in places where there are enough people who have discretionary income to spend.