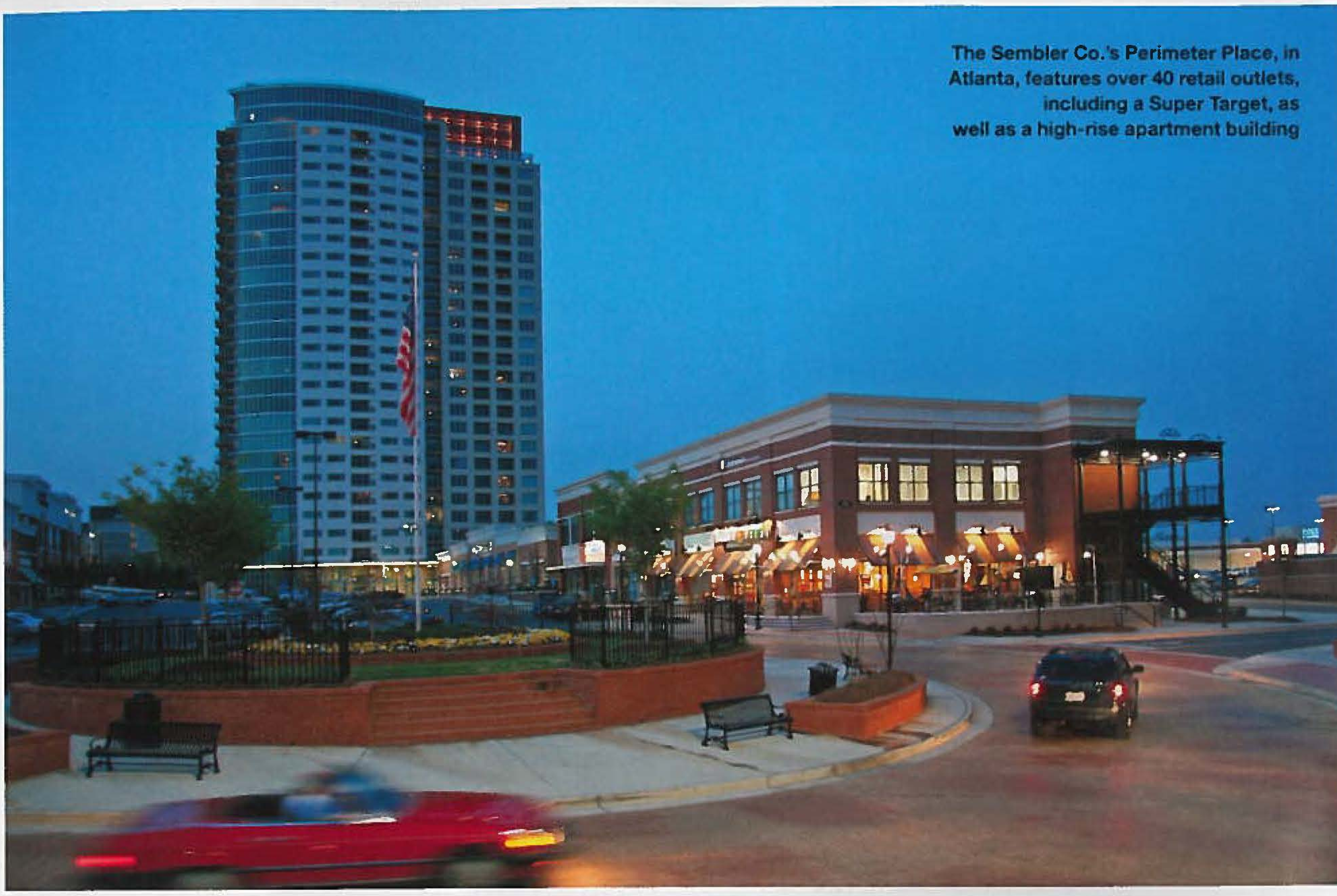

The Sembler Co.'s Perimeter Place, in Atlanta, features over 40 retail outlets, including a Super Target, as well as a high-rise apartment building

getting ahead of the **nomenclature**

INNOVATIVE NEW PROJECTS CROSS THE BOUNDARIES OF TRADITIONAL ASSET-CLASS DEFINITIONS **BY JOEL GROOVER**

The speed at which the retail real estate field keeps evolving has pressed more and more developers to ask a basic question about the projects they build: What do we call this thing?

In theory, the answer could be as simple as referring to ICSC's *U.S. Shopping Center Classification and Characteristics*, which provides the formal definitions for power centers, neighborhood centers, regional malls and other property types. In practice, however, adhering to such neat definitions could prove difficult, thanks to the increasingly hybrid nature of today's retail projects. "Changes are occurring in retailing and retail real estate at a very rapid pace," said Jim Sullivan, president of advisory and consulting at Green Street Advisors. "And so the distinct lines between those different categories are much blurrier than they've ever been."

GGP is well known for its portfolio of regional and super-regional malls, but CEO Sandeep Mathrani now avoids the word "mall" and tends to call the firm's properties super-regional or regional centers. "We're going after community center tenants," Mathrani said at ICSC's Nexus Conference in January, noting that GGP has 11 supermarket deals under way. "There's been a mind shift: There are no more sectors."

It is certainly true that traditional malls are welcoming all sorts of tenants better known for opening stores at other property types, says Sullivan. "We are seeing traditional tenants of power centers and grocery-anchored shopping centers — whether that is Dick's Sporting Goods or Whole Foods — show up at the mall," Sullivan said. "Struggling malls are also looking for replacement tenants in places where they haven't looked before, like the strip center across the street."

The widespread closure or repurposing of department store spaces is upending decades-old retail dynamics at many malls. Ron Wheeler, CEO of The Sembler Co., points to Sears Holdings' redevelopment strategy, executed through its rela-

The Sembler Co.'s Town Brookhaven, Atlanta

> "Amazon.com and others could easily begin using vacant boxes at shopping centers for that last-mile fulfillment function"

tionship with Seritage Growth Properties, a publicly traded REIT. "They are taking a big chunk of their stores and redeveloping them with all different kinds of uses: restaurants, gyms, sporting goods and things of that nature," Wheeler said.

But are these changes so profound as to require rethinking the basic names used for retail assets? At times some owners do wonder whether the longstanding classifications are the right fit. Technically, Sembler's Publix-anchored Amberly Place, in Cary, N.C., would fit into ICSC's definition of a "community center (large neighborhood center)." But the 77,000-square-foot property, which is to break ground this year, is quite a departure from the typical grocery-anchored shopping center, according to Josh Beyer, Sembler's senior vice president of development. Its villagelike design offers public gathering spaces, outdoor dining and wide sidewalks — amenities more typical of a lifestyle center, he explains. "It creates places for the community to congregate and spend more time than what you would typically see in a 'neighborhood shopping center,' as defined by the industry," Beyer said. "It's about creating a more unique experience to help drive sales and traffic to that center, versus a more historically traditional design, with retail oriented to the street, with parking out front."

Sembler has used a term of its own making — "mixed-use lifestyle center" — to describe in-town, live-work-play properties such as Town Brookhaven or Perimeter Place, both of which are in Atlanta. "These are properties that are mixed-use in that they have residential and some office," Wheeler said, "but they also have lifestyle center elements to them."

The lines are fading between other property types as well. According to ICSC's definition, the fundamental idea for a factory outlet center is to have "manufacturers' and retailers' outlet stores selling brand-name goods at a discount." But today it is commonplace to see outlet stores opening at malls and other projects with plenty of full-price stores — sometimes right in the heart of a city. This trend toward hybridization began decades ago with Mills Corp. urban projects but is now mainstream. Meanwhile, landlords across the country are leasing more space to hospitals, universities, government agencies and similar nonretail users, even as service-oriented tenants take space at a rate now disproportionate to their choices in the past.

Citing a recent portfoliowide review of Sembler's grocery-anchored properties, Wheeler describes a substantial shift toward tenants specializing in health, wellness, beauty and fitness. "When I look at leasing activity today in our grocery-anchored portfolio, 83 percent of deals are in the restaurant or health, beauty, wellness or fitness categories," Wheeler said. "So only 17 percent of what we are currently leasing was a traditional retailer, where you go in, buy something, put it in a bag and take it home. That has been a dramatic change."

The use of traditional retail space for order-fulfillment services, too, promises to change the way shopping centers look and operate. "Pure-play Internet retailers are opening brick-and-mortar stores, mostly in urban areas, and using them either as fulfillment centers or showrooms," Wheeler said. "Even grocery stores are being used essentially as fulfillment centers by the likes of [online grocers] Instacart and Shipt, although this is a small part of their sales for now. So it is all changing rapidly and radically."

A growing focus on the so-called "last mile" challenge — by which retailers strive to move goods from the fulfillment center to the final destination as quickly as possible — could further accelerate these changes, according to Sullivan. Over the next three to five years, Amazon.com and others could easily begin using vacant boxes at shopping centers for that last-mile fulfillment function, potentially changing, in turn, the function of these properties, Sullivan says. "Looking ahead, things will get even more opaque," he said, "because of the intersection of e-commerce and retail real estate."

The lines are indeed blurring in ways that put pressure on existing definitions, ICSC researchers concede, though they cite compelling reasons to pursue a common language when discussing retail assets. "At a fundamental level, you can't confuse a grocery-anchored neighborhood center with an outlet center," said Michael Tubridy, ICSC research managing editor, "or you're going to have chaos when people talk." To be sure, the phrase "lifestyle center" was sometimes used loosely in the past for marketing purposes, diluting the term's meaning and creating some confusion in the industry, notes Tubridy.

And it is hardly the case that every retailer is indifferent to property type, observes John Connolly, ICSC research project manager. In fact, many retailers still tend to focus on the property types for which they are best known, he says, pointing out that few would imagine a luxury retailer like Saks Fifth Avenue opening a full-price store in a neighborhood center.

Moreover, performance benchmarking and other analyses based on specific property types is important for the industry — especially given the trend toward publicly traded REITS with portfolios of malls or neighborhood and community centers. Without consistent asset classifications, this type of research becomes more difficult, the researchers assert. "This industry now, especially at the mall level, has so many public companies, compared to when I first started at ICSC in 1990," said Tubridy. "Investors and Wall Street analysts want to have an idea of what type of property they're looking at."

ICSC research reports, too, benefit from the efforts of owners and developers to be precise in the way that they classify their assets. "From the data side, I can definitely speak to this," said Connolly. "It would be very helpful."

Sullivan concurs with regard to careful categorization. "It matters, because we need to have some sort of distinction or characterization of properties," he said. "It is important to have categories and for a trade organization like ICSC to create those definitions. Just be careful when you use those terms, because what they mean today is different from what they meant just five or 10 years ago."

But these attempts at precision can be hampered by an eager, relentless drive on the part of marketing professionals for exciting new lingo with the power to draw retailers and shoppers, observers note. Instead of calling a project a "power center," for example, a marketing team might describe it as "an experiential retail, dining and entertainment complex." But within the more formal communications of the industry itself, such as when brokers share property information with potential investors, the participants generally encounter terminology that is less high-blown and more accurate, says Beyer. "You do see these definitions used in the marketing of centers for sale," he said. "There, it's important to have an overall, general consensus as to what the property is."

Still, far from being rigidly codified, these definitions can and do breathe and evolve along with major trends, Connolly says. "While we have the definitions, the definitions are not set in stone," he said. "They are guidelines to try to move toward what is a typical type of shopping center historically." As a case in point, Tubridy points to when the industry began using the term "superregional mall" in the 1970s and '80s, as regional malls started expanding beyond the general range of 400,000 to 800,000 square feet and thus drawing from larger trade areas.

Some observers opine that there are ways to be accurate about hybridized properties without creating new and potentially confusing terms from scratch: Unsure whether a project qualifies as a factory outlet mall, an owner could describe it as a large neighborhood center with a substantial factory outlet component; unclear whether a project is a lifestyle center or a community center, the marketing team could bill it as a pedestrian-friendly community center with lifestyle components.

The ICSC research department tends to revisit these classifications every decade or so, and the current terms could thus be reviewed in the near future, if clear reasons emerge to do so, says Tubridy. "As owner-developers innovate and continually reevaluate their properties, they are going to keep pushing at the edges of some of these criteria," Tubridy said. "But I think the ultimate value of having consensus definitions will still be there." ■