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Mall Glut to Clog Market for Years

Scarce Shoppers,
Lack of Tenants
Ding Developers

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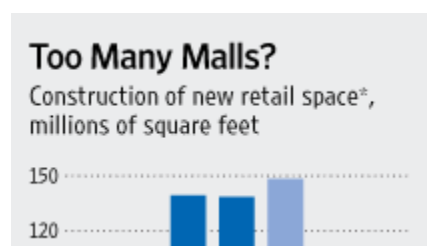
Shopping-mall owners have struggled this year with a darkening economy, slowing consumer spending and store closings by retailers. But they face another problem that may persist long after the economy bounces back: a decade of overbuilding.

Developers have built one billion square feet of retail space in the 54 largest U.S. markets since the start of 2000, 25% more than what they built during the same period of the 1990s, according to Property & Portfolio Research Inc. of Boston. U.S. retail space now amounts to 38 square feet for every person in those 54 markets, up from 29 square feet in 1983, the firm says.

Consider a six-mile stretch of highway north of Dallas, where three developers are racing to finish four huge shopping centers with a combined three million square feet of space. Not only will they compete with each other, but there are three existing malls within a 10-mile radius.

"There just aren't enough tenants to go around for three projects," concedes Gar Herring, president of shopping center developer MGHerring Group of Dallas, which is building the largest of the centers.


Similar scenes are playing out across the country. DeBartolo Development indefinitely postponed construction of 700,000 square feet of retail space in Mesa, Ariz., due to weak demand. Green Street Advisors, a real-estate research firm, says 13 strip shopping centers under development have been canceled this year and 90 others have been delayed by the seven shopping-center developers it monitors.



Of course, retail landlords struggle and store vacancies rise in every economic downturn. But this time, experts say, the overbuilding means that high occupancy rates at malls and strip centers may not return for years.

For retailers, the glut can have an upside: cheaper rents,

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Brian Harkin for The Wall Street Journal

This mall in north Dallas is competing with two others nearby for tenants.

shorter lease terms and fatter allowances from landlords for outfitting stores. This year, the rents in new lease signings are 10.4% lower on average than the asking price, down from the 9.3% discount of two years ago, says market researcher Reis Inc. of New York.

Shopping-center owners with a hefty focus on development, including **Regency Centers Corp.** of Jacksonville, Fla., and Weingarten Realty Investors of Houston, are compensating for the construction slowdown by trying to raise rents and sell older centers. Others, such as **Kimco Realty Corp.** of New Hyde Park, N.Y., have shifted much of their development abroad. Brian Smith, Regency's chief investment officer, said the real-estate investment trust has canceled some development projects, continued more cautiously with others and turned partly to upgrading existing centers. Regency's second-quarter profit was off 25%.

David Simon, chairman and chief executive of **Simon Property Group Inc.**, the largest U.S. mall owner with 323 malls, sees "a decade of little new development" and a shakeout. "There were a lot of projects that shouldn't have been built" in recent years, he said.

Some big retailers are curtailing expansion and closing stores. For the first time since the 1990-91 recession, occupied retail space in major U.S. markets is expected to decline this year, falling by 1.2 million square feet, projects Property & Portfolio Research. Last year, occupied space grew nearly 61 million square feet, the firm says. Retailers that helped drive the building boom -- **Wal-Mart Stores Inc.**, **Home Depot Inc.** and **Starbucks Corp.** among them -- have nearly saturated the U.S. Earlier this year, Home Depot said it would close 15 unprofitable stores and cancel 50 proposed ones, throttling back its store-growth ambitions to a meager 1.5% a year.

The building boom in north Dallas demonstrates how retail development went overboard. In 2004, when the Herring family began planning two million square feet of shops in two adjacent projects, the area was among the country's fastest growing, with houses sprouting by the thousands in Allen, McKinney and Plano.

Three miles south, Trademark Property Co., of Fort Worth, Texas, broke ground in 2006 on a 500,000-square-foot, \$200 million shopping center named Watters Creek. Trademark nabbed **Cheesecake Factory Inc.**, **Chico's FAS Inc.**, **AnnTaylor Corp.** and a gourmet grocer, among others.

The Herrings landed their own big-name retailers, beating out **General Growth Properties Inc.**, which had announced plans for a mall three miles north. After the Herrings cut a deal with a Foley's department store and **Dillard's Inc.**, General Growth surrendered, recently listing its site for sale. The Herrings' big-box shopping center is slated to open next month and their open-air mall next August. But together, the projects are only 60% leased, based on figures the company provided.

It's unclear how another competitor that emerged near the General Growth site will fare. O&S Holdings LLC of Beverly Hills, Calif., intends to build a mixed-use complex including 600,000 square feet of retail. "I feel confident in our location," says Chris Shane, a vice president at O&S. But he said four projects may prove too many. "One project has to give," Mr. Shane said.

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