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Look Out Below!

By Kenneth J Rogers As published by *Retail Traffic*, August 2003

As the shopping center industry reaches maturity, the gulf between the top malls and class B and Class C properties is widening.

Not only are these malls falling farther behind Class A malls in terms of performance, they are also falling in value when they are sold. In fact, a growing number of these malls across the country are selling for less than their assessed values. For instance, Southland Mall, a 500,000-square-foot mall in Memphis, had been reassessed in 1997 at \$15 million. It sold three years later for \$10 million.

Southland was the first mall built in its trade area. However, over time, it was outflanked by bigger, newer malls and big-box competition. And although it has recently experienced somewhat of a turnaround, its occupancy had declined to as low as 50 percent at the time it was sold.

More recently, Southridge Mall in Milwaukee, Wis., a 1 million square-foot-mall, that sold in late 2002 for \$81 million, compared to the assessed value of \$115 million.

And SeaTac Mall, a 750,000-square-foot mall in Seattle, sold for \$37 million in the first quarter compared to an assessment of \$41 million. SeaTac has been in decline for the past few years. And even though its assessment had been reduced in response to increasing vacancies, the recent sale reflected even more value diminution.

These malls, like many other B and C malls around the county, are being squeezed by A malls on one end, and by discounters and big box retailers on the other.

What's behind the decline? Changes in demographics, coupled with the well-documented woes of department stores (the primary draw to a mall), have eroded the customer base of many of these centers.

Furthermore, the vast majority of national retail chains are opening new stores only in the best malls, located in the largest major metro markets. This makes it exceedingly difficult for B and C malls to increase occupancy. And the big box and small shop retailers who are willing to take a risk in secondary locations will do so only at significantly lower rents.

These factors all point to declining values for many malls. In some cases, their viability is in jeopardy. John Bucksbaum, CEO of Chicago-based General Growth Properties, was recently quoted in USA Today, saying: "There are a good 500 malls that probably have no reason for being."

Owners of B and C malls may not be in a position to sell these properties. But they should evaluate them for value decline and potential overassessment in light of the following factors:

- Declining in occupancy
- Big boxes replacing inline tenants at lower rents
- Recent gross rent deals
- Decline in overage rents
- New retail competition in the trade area
- Vacant anchor spaces

Because local assessing practices vary widely, a property tax professional should be consulted to determine the degree to which the above-mentioned factors may reduce your assessed value — and tax liability. In many cases assessors are receptive to evidence of adverse changes in market conditions and property performance and will reduce assessments consistent with this evidence.

A MATTER OF CLASS

Class A mall: dominant property in major metro markets, top anchors and at least \$400 per square foot in retail sales.

Class B mall: a non-dominant competitor in its trading area, typified by tenant sales of less than \$400 per square foot.

Class C mall: generally thought of as a weaker player, with sales of less than \$250 per square foot, and usually hobbled by a competitive disadvantage, such as inferior location, vacant anchor space, etc.

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