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The future of Class C malls: Renovation, services help revive vacant plazas

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This story is part of [The Great Mall Overhaul](#), a joint Modern Retail and Glossy editorial series looking into all the ways the businesses underpinning malls have been upended.

For years, a 25,000-square foot space that once housed a Big Deal Outlet discount store left a gaping hole in the Perris Pavilion shopping plaza. Even with a grocery store anchor tenant and adjacent shopping mall, the property owner had a hard time securing a willing tenant for the inland southern California plaza.

But after roughly seven years of planning and construction, that space has been sliced up into 21 individual food, retail and office spaces. As of September 2022, 20 spots are currently leased.

“People don’t need to have big retail space anymore, so we do see a lot of those vacant,” said Richard Tseng, property manager at the Perris Pavilion. “How many businesses can use up 30,000 square feet? But if you cut them up smaller, 1,800 or 1,000 square feet, it’s more manageable.”

Outdoor shopping plazas began sprouting up in Southern California in the 1930s before spreading to other areas of the country, preceding the advent of the enclosed shopping mall in the midcentury. Nowadays, shopping plazas and strip malls are often considered Class C properties, underneath the Class A mega malls with high-end retailers and restaurants and Class B malls with chain stores anchors.

In suburban sprawl and rural communities across the country, Class C properties cater to local residents with a mix of grocery stores, cell phone stores, nail salons or discount retailers. Yet these properties have taken some of the biggest hits in recent years, especially as e-commerce giants continue to absorb retail spend.

While shopper center vacancy rates hit an average of 5.9% nationwide in the third quarter of this year, some Class C properties see rates as high as 30%, according to data from commercial real estate firm Cushman & Wakefield.

In turn, developers implement a mix of strategies to score new tenants. That might mean securing a service-oriented anchor to draw foot traffic, like a gym or medical clinic. Other owners pivot to residential or office space. Still others might redevelop the site into something more modern and functional.

In the case of Perris Pavillion, renovating the vacant big box allowed the property to house a new food court and create adjacent office space. And securing a mix of multiple tenants also gives the property a broader financial footing to stand on, he said.

“With a single tenant, it’s either 100% occupied or zero,” he said. “If I can make it into smaller spaces, I could even have a 30% vacancy, but the landlord can still afford to pay the mortgage. And looking long-term, your dollar per square feet will be higher, too.”

Creating a draw

Long before the retail disruption of the pandemic, suburban shopping plazas across the country were in reinvention mode. Barrie Scardina, head of retail for the Americas and the regional president for the northeast at Cushman & Wakefield, said consumers became more intentional about their physical shopping trips thanks to the advent of online shopping.

The online shopping trend accelerated during the pandemic when many physical stores closed or saw low foot traffic. Cushman & Wakefield data shows e-commerce spend made up 21% of core retail sales in the first quarter of 2022, compared to 16.5% in the fourth quarter of 2019.

“People who would enter a mall or a strip center to wander around aimlessly, I don’t think those people are as big a part of our shopping group as they used to be,” Scardina said. “And so because people are very organized and very focused on what they’re doing, and they have done their research, they’re coming in and getting it done.”

To make up for the lack of shopping, properties increasingly look to service-oriented businesses to anchor their plazas, Scardina said. That could mean veterinary clinics, spa services or urgent care centers. Experiential businesses like ax throwing and pickleball courts are also potential draws. Scardina points to a company called Little Kitchen Academy that offers cooking classes for children, creating a prime opportunity for parents to do some shopping nearby; the chain has two locations open in Los Angeles and Portland, with 10 planned openings across the country in 2023.

This diversification of tenants can wind up helping properties of all sizes hang on. CBL & Associates operates malls and shopping centers of various sizes throughout the midwest, ranging from outdoor shopping plazas with tenants like Best Buy and Old Navy to 1.5 million square foot malls with over 100 stores. Its second-quarter earnings this year showed occupancy was up to 89% across its portfolio, up from 87% a year before.

CEO Stephen J. Lebovitz called the portfolio “resilient,” and pointed to ongoing development that incorporates unique uses.

“We are seeing ongoing interest across our portfolio from hotels, multi-family, medical, entertainment, restaurants, and other new uses, which will further enhance our properties and diversify our revenue stream,” he said.

The right mix

Scardina and other commercial real estate experts say one key to reviving vacant plazas is finding unmet needs for that neighborhood. That begins with a “void analysis,” where developers survey what services exist or are missing within a nearby radius.

The assessment also looks at nearby residential development. Acquiring a grocery store or restaurants are often key anchors, especially in areas with growing residential populations. “It’s really about thinking, what are the voids in the community? And what would kind of make a change in terms of the neighborhood?” Scardina said.

Sometimes the conversation turns into one of renovation, involving knocking down walls or building up stores of different sizes to create more opportunity for tenants’ across the budget spectrum.

“I think we’re just starting to see some of these older malls start to think about what redevelopment looks like. ‘Do I need open space? How many restaurants should I have? What is Thursday night nightlife look like for the center? Can I bring people together in a community?’” she said.

In some cases, properties may evolve beyond their intended use. New laws in California passed this year pave the way for housing development on commercial zones under certain circumstances. The legislations aims to attack the state’s housing crisis which is exacerbated by a lack of affordable inventory.

A fiscal balancing act

Sandy Jacobson, partner with real estate firm Allen Matkins, said property owners also carefully examine a potential tenant’s credit, especially in the wake of financial losses from the Covid-19 lockdowns. On this front, those with national or regional backing tend to have the edge over local or individually-owned businesses.

“A lot of times, if you’ve got someone smaller, they’ll want a guarantee or a giant security deposit or pre-paid rent,” Jacobson said. “It’s that stuff that’s harder for your little guy just getting started to be able to produce. And while they could potentially be successful, landlords can be very gun shy.”

That dynamic can make it harder to fill spaces in small towns or rural areas, as national brands may not look to those areas that don’t have a big population.

Overall, Jacobson said Class C properties tend to experience more challenges filling vacancies than larger malls. But local communities that have blighted or vacant properties are eager to see them filled — not only for the convenience but for the tax dollars they bring in, Jacobson said.

“A lot of times, they’re taking this opportunity to rehab their center, maybe making it from a C to B or a B to an A-, and get new tenants in there,” she said.

But such a journey doesn’t happen overnight. Tseng from Perris Pavilion said the process to renovate the plaza included putting in new gas meters, transformers and grease traps. Then there was the work of filling the spaces. Tseng knew getting food vendors in place would be the biggest draw, so he started there. Using Yelp, he reached out to about 100 regional restaurants with high reviews that didn’t yet have a local presence.

From there, he began to fill in other spaces with service-oriented tenants like eyebrow threading, a nutrition shop and a worship center. This was still during the peak of the pandemic, so Tseng offered first and second year discounts to get tenants to commit.

Since its grand opening in February 2022, Perris Pavilion has been hosting pop-up night markets and other events to help increase foot traffic, including a recent spicy ramen-eating contest. Buoyed by a social media presence that’s netted over 10,000 Instagram followers, Tseng said the new mix of stores and events is bringing in customers who may not have otherwise stopped by the plaza.

“It’s a good project for a small company,” he said. “The initial investment is high, but in the long-term it makes sense.”