Shopping Center Appraisal and Analysis

Second Edition

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The Appraisal Institute advances global standards, methodologies, and practices through the professional development of property economics worldwide.
The Nature of Shopping Centers

Shopping center analysis and evaluation begins with an understanding of the terminology, conditions, and criteria that are currently used in the retail industry. With knowledge of these definitions and concepts, an appraiser can begin to understand the different types of shopping centers that currently exist and can be developed. The analysis of shopping centers also requires an understanding of the economic rationale for the existence and viability of shopping center developments.

Shopping Center Definition

The Urban Land Institute defines a shopping center as “a group of commercial establishments planned, developed, owned, and managed as a unit related in location, size, and type of shops to the trade area it serves. It provides onsite parking relating to the types and sizes of its stores.”

Thus, a shopping center is more than a collection of retail uses. It reflects a unified architectural design and site plan. Ample parking is planned to facilitate a desirable flow of pedestrian traffic, while delivery and service areas are screened from customer view. A shopping center also features sign control, landscaping, and unified management policies, usually developed through a merchants’ association. Retail and service tenants are selected for merchandising balance and interplay. The entire project strives for a synergism

beyond the underlying retail and service activity, with percentage leases used to capture some of the value created for the owner and operator.

The scope of the basic definition is extended when one considers the following eight characteristics of shopping centers (as taken from the Urban Land Institute's retail handbook):^2

1. Coordinated architectural treatments, concepts, or themes for the building or buildings providing space for tenants that are selected and managed as a unit for the benefit of all tenants. A shopping center is not a miscellaneous or unplanned assemblage of separate or common-wall structures.

2. A unified site, suited to the type of center called for by the market. The site may permit the expansion of buildings and the addition of new buildings, uses, or parking structures if the trade area and other growth factors are likely to demand them.

3. An easily accessible location within the trade area with efficient entrances and exits for vehicular traffic as well as convenient and pleasurable access for transit passengers, where appropriate, and pedestrians from surrounding development.

4. Sufficient onsite parking to meet demand generated by retail uses. Parking should be arranged to enhance pedestrian traffic flow to the maximum advantage for retail shopping and to provide acceptable walking distances from parked cars to center entrances and to all individual stores.

5. Service facilities (screened from customers) for the delivery of merchandise.

6. Site improvements, such as landscaping, lighting, and signage, that create a desirable, attractive, and safe shopping environment.

7. A tenant mix and grouping that provide synergistic merchandising among stores and the widest possible range and depth of merchandise appropriate for the trade area and type of center.

8. Comfortable surroundings for shopping and related activities that create a strong sense of identity and place.

Proper development and management are crucial to a shopping center. A shopping center is a business enterprise involving the entrepreneur, the tenants, the lenders, and the community at large. The role of the entrepreneur is that of creator, arranger, and coordinator. How well the entrepreneur plays this role influences the success of the project. Ongoing management and leasing is equally critical to the long-term success of the project for all involved.

**Spatial Definitions for Shopping Center Analysis**

The following definitions and concepts are generally accepted in the industry and endorsed by the Urban Land Institute and the International Council of Shopping Centers.^3 Shopping center analysts and appraisers must understand these definitions to obtain appropriate data for analysis from published sources and interviews with shopping center developers and managers.

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^3. Definitions are quoted from the ULI's *Dollars and Cents of Shopping Centers/The Score 2008*. 

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Source: *Shopping Center Appraisal and Analysis*
Gross building area (GBA). The total area contained within the exterior walls of the shopping center measured as the distance between the outer surfaces of those exterior walls.

Gross leasable area (GLA). The total floor area designed for tenants' occupancy and exclusive use, including any basements, mezzanines, or upper floors, expressed in square feet and measured from the centerline of joint partitions and from outside wall faces. Because GLA lends itself readily to measurement, the shopping center industry has adopted it as the standard for statistical comparison.

Gross leasable area of mall shops. The total floor space occupied by mall tenants for superregional and regional centers. It does not include the area of department store tenants or any other unowned areas.

Total floor space. Comprises all areas held by the center owner and any areas that are independently managed or owned but that are physically a part of the center. It includes GLA and all other enclosed space in the shopping center, as well as outparcels.

Common area. The total area within the shopping center that is not designed for rental to tenants but that is available for common use by all tenants or groups of tenants, their invitees, and adjacent stores. Parking and its appurtenances, malls, sidewalks, landscaped areas, public toilets, truck and service facilities, and the like are included in the common area.

Parking area. The space devoted to car parking, including onsite roadways, aisles, stalls, islands, and all other features incidental to parking.

Parking area ratio. The ratio of parking area to gross building area.

Parking index. The number of car parking spaces made available per 1,000 square feet of GLA. The parking index is the standard comparison used to indicate the relationship between the number of parking spaces and the gross leasable area.

Almost all information on rents and costs of operation for shopping centers is based on gross leasable area.

Criteria for the Description of Shopping Centers

At least six criteria are used to describe the nature or type of shopping center being analyzed.

- Shopping center size
- Anchor tenant
- Type of products sold
- Site size
- Distance and travel time
- Customer base

These criteria determine if a shopping center is a convenience center, a neighborhood shopping center, a community center, or a regional shopping center.

Shopping Center Size

One criterion used to describe shopping centers is size, measured in gross leasable area. As a general guideline, neighborhood shopping centers are the smallest, community shopping centers are midsize, and regional shop-
ping centers are largest. The rules of thumb associated with this criterion are shown in Exhibit 1.1, but there is no clear-cut distinction between a large neighborhood shopping center and a small community center with regard to square foot area. For example, a large neighborhood center can exceed 100,000 square feet, which is for a lower size limit usually associated with a community center. Similarly, a large community center and a small regional center may have the same square foot area.

**Anchor Tenant**

The second criterion for differentiating shopping centers is the anchor tenant. The anchor tenant is sometimes referred to as the *major tenant* or the *key tenant* in the shopping center. The anchor tenant is considered to be the traffic generator or the attracting force of a shopping center. The anchor of a shopping center generates the greatest amount of customer patronage and is usually considered to be strong enough to stand alone. The type of anchor tenant depends on the shopping center; it can be a supermarket in a neighborhood center or a department store in a regional shopping center.

<table>
<thead>
<tr>
<th>Exhibit 1.1 Characteristics of Shopping Centers</th>
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<tbody>
<tr>
<td>Type of Center</td>
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</tr>
<tr>
<td>Convenience center</td>
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<tr>
<td>Neighborhood center</td>
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<tr>
<td>Community center</td>
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<tr>
<td>Regional center</td>
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<td>Superregional center</td>
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</tbody>
</table>


**Type of Products Sold**

Shopping centers can be differentiated by the type of products sold by the stores in the center. The two types of products typically mentioned are convenience, or low-order, goods and shopping, or high-order, goods.

Convenience goods are commodities that are needed and purchased frequently; they are purchased without extensive price or style comparison. Convenience goods are typically sold at locations most accessible to the consumer.

Convenience goods include food, prescription and non-prescription drugs, personal care products such as shampoo, razor blades, and soaps, household care products such as detergent, bleach, and paper towels, and personal ser-
vices such as laundry, dry cleaners, and hair salons. These goods satisfy the
day-to-day needs of individuals.

Shopping, or high-order, goods are relatively expensive commodities
that are purchased infrequently or when the desire or need for them arises.
Before purchasing these goods, consumers usually do some comparative
shopping to investigate differences in the price, quality, style, and design of
similar products on the market. The acquisition of shopping goods requires
more effort and time. Shopping goods are often divided into soft-line goods
and hard-line goods. Soft-line goods, also known as soft goods, are nondura-
able products such as wearing apparel and domestic products including linen,
bedding, towels, and fabric. Hard-line goods, also known as hard goods, are
durable items such as hardware and appliances.

**Site Size**
The fourth criterion, site size, is directly related to the GLA criterion dis-
cussed previously. Neighborhood shopping centers require the smallest sites
(3 to 10 acres), while superregional malls require the largest sites (typically
60 acres or more). More precise figures are shown in Exhibit 1.1.

**Distance and Travel Time**
The fifth criterion is distance or travel time from customers’ points of origin.
The analyst uses the measure he or she considers most appropriate. Neigh-
borhood shopping centers attract customers with the smallest travel dis-
tances and shortest travel times. Regional shopping centers attract customers
who incur more travel time.

**Customer Base**
The final criterion is the customer base, or the population within the mea-
sured distance or travel time. Neighborhood centers require smaller custom-
er bases than regional shopping centers.

**Traditional Types of Shopping Centers**
The Urban Land Institute (ULI) describes shopping center types based on
several criteria, including the anchor tenant, the products sold, and the gross
leasable area. The ULI’s descriptions of convenience, neighborhood, commu-
ity, regional, and superregional shopping centers follow.\(^4\)

A *convenience center* provides for the sale of personal services and convenience goods
similar to those of a neighborhood center. It contains a minimum of three stores, with a
total gross leasable area of up to 50,000 square feet. Instead of being anchored by a super-

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4. Definitions are quoted from the ULI’s Dollars and Cents of Shopping Centers/The Score 2006.
market, a convenience center usually is anchored by some other type of personal/convenience service such as a minimarket.

A neighborhood center provides for the sale of convenience goods (foods, drugs, and sundries) and personal services (laundry and dry cleaning, barbering, shoe repairing, etc.) for the day-to-day living needs of the immediate neighborhood. It is built around a supermarket as the principal tenant and typically contains a gross leasable area of about 60,000 square feet. In practice it may range in size from 50,000 to 100,000 square feet.

A super community/community center is any center larger than a neighborhood center but with neither a traditional department store nor the trade area of a regional shopping center. This includes traditional community shopping centers, power centers, town centers, lifestyle centers, and outlet/off-price centers that meet these criteria. The traditional community shopping center contains many of the convenience tenants that are found in neighborhood shopping centers, while offering a wider range of apparel, hardware, home furnishings, home improvement, and specialty stores. In addition, the center also may include banking and professional services, personal services, and recreational facilities. Many centers are built around a discount department store, super drug store, mixed apparel (women/men/children) store, as well as a supermarket. The typical size of a super community/community center is about 180,000 square feet of gross leasable area, but in practice it may range in size from 100,000 to 500,000 or more square feet with power centers among the largest. In extreme cases, any type of super community/community center may contain more than 1,000,000 square feet. As a result, the community center is the most difficult to estimate for size and pulling power.

A power center contains at least four category-specific anchors of 20,000 or more square feet. These anchors typically emphasize hard goods such as consumer electronics, sporting goods, office supplies, home furnishings, home improvement goods, bulk foods, drugs, health and beauty aids, toys, and personal computer hardware/software. They tend to be narrowly focused but deeply merchandised “category killers” together with the more broadly merchandise, price-oriented warehouse club and discount department stores. Anchors in power centers typically occupy 85 percent or more of the total GLA.

Note that a category killer is a specialty retailer that is so strong in its line of merchandising that its presence in a shopping center makes that center completely unattractive to competing specialty retailers in the same line.

A regional center provides general merchandise, apparel, furniture, and home furnishings in depth and variety as well as a range of services and recreational facilities. It is built around one or two full-line department stores of not less than 50,000 square feet, although there are exceptions in small communities. Its typical size is about 500,000 square feet of gross leasable area; in practice, it may range from 250,000 to more than 900,000 square feet. The regional center provides services typical of a business district yet not as extensive as those of the superregional center.

A superregional center offers extensive variety in general merchandise, apparel, furniture, and home furnishings, as well as a variety of services and recreational facilities. It is built around three or more full line department stores generally of not less than 75,000 square feet each, although there are exceptions in small communities. The typical size of a superregional center is about 1,000,000 square feet of gross leasable area. In practice, the size ranges from about 500,000 to more than 1,500,000 square feet.

All centers typically include within the site area (the gross land area within the property lines) an area of sufficient size to provide customer and employee parking in relation to the gross leasable area as determined by the accepted standard for the parking index.

The Korpacz Real Estate Investor Survey defines the fortress mall as “the dominant performing Class A+ malls in the country, whose inline stores generate at least $450 per square foot in retail sales; they contain inline and an-
anchor stores that are both well established and unmatched in the trade area." Note that inline stores are located between the anchors and the end spaces.

Open-Air Centers

The term open air describes a retail place that does not have enclosed walkways between stores. It is usually an attached row of stores or service outlets managed as a single unit with onsite parking usually located in front of the stores with common areas that are not enclosed. Open canopies may connect the storefronts, but an open-air center does not have enclosed walkways linking the stores. These centers can be linear, L-shaped, U-shaped, or cluster configurations. The linear form is most common in neighborhood and community centers. The cluster form has been responsible for the emergence of new classes of centers such as the lifestyle center, in which the physical layout of the center and open feel are differentiating features. Historically, the open-air center has been referred to as the strip center.

Previously, Exhibit 1.1 summarized the descriptive characteristics of convenience, neighborhood, community, regional, and superregional shopping centers. Exhibit 1.2 provides guidelines for two other criteria—distance or travel time and customer base. The information in Exhibit 1.2 describes the trade areas of various types of shopping centers. This topic will be discussed in greater detail in later sections of this text.

The following list provides important resources for definitions, statistics, and other general information related to shopping centers:

- Urban Land Institute: www.uli.org and Retail Development (2008), part of the Urban Land Institute's Development Handbook Series
- International Council of Shopping Centers: www.icsc.org
- National Bureau of Economic Research: www.nber.org
- Pitney Bowes MapInfo (location data and location intelligence applications): www.mapinfo.com
- Institute of Real Estate Management: www.irem.org

### General Guidelines for a Primary Trade Area

<table>
<thead>
<tr>
<th>Type of Center</th>
<th>Minimum Population Support Needed</th>
<th>Radius</th>
<th>Driving Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superregional</td>
<td>300,000 or more</td>
<td>12 miles</td>
<td>30 minutes</td>
</tr>
<tr>
<td>Regional</td>
<td>150,000 or more</td>
<td>8 miles</td>
<td>20 minutes</td>
</tr>
<tr>
<td>Community</td>
<td>40,000-150,000</td>
<td>3-5 miles</td>
<td>10-20 minutes</td>
</tr>
<tr>
<td>Neighborhood</td>
<td>3,000-40,000</td>
<td>1.5 miles</td>
<td>5-10 minutes</td>
</tr>
</tbody>
</table>

Note: This table provides general guidelines, which must be modified to fit the characteristics of the specific shopping center being considered.

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5. PricewaterhouseCoopers, Korpacz Real Estate Investor Survey (Third Quarter 2007), 80.
Nontraditional Shopping Centers
Nontraditional centers include lifestyle centers, festival centers, fashion centers, off-price centers, outlet centers, discount centers, power centers, and hypermarkets.

Before these centers are discussed, two new types of goods must be defined: impulse goods and specialty goods. The impulse product or good is a product that shoppers do not actively or consciously seek but rather is purchased without a prior decision to shop for it. The specialty good, on the other hand, is a product that a shopper examines more carefully and makes a greater effort to purchase.

Entertainment Centers
The entertainment center, once known as the festival shopping center, is defined by many analysts as a shopping center that contains stores that sell impulse specialty goods, either exclusively or as a high percentage of their total merchandise mix. A large portion of its GLA is devoted to restaurants and food vendors that offer ethnic authenticity and uniqueness. Entertainment centers are frequently characterized by a blend of onsite food service and specialty food retailing. A festival center may also have a strong entertainment theme featuring informal performances by street musicians, acrobats, jugglers, or mimes.6

Entertainment centers have various mixes of dining, entertainment, and unique experiences to drive frequent shopper visits. These attractions may include cinemas, children's play areas, amusement parks, and other non-traditional shops. Also known as retail-tainment, shopper-tainment, or mall-tainment, some examples of entertainment centers include the Mall of America in suburban Minneapolis, Minnesota, Station Square in Pittsburg, and Power Plant Live in Baltimore.

Fashion Shopping Centers
A fashion shopping center is typically defined as a concentration of apparel shops, boutiques, and custom shops that carry special, high-quality merchandise. A fashion center may include one or more high-quality fashion stores such as Bloomingdale's, Saks Fifth Avenue, or Neiman Marcus. A fashion shopping center can usually be found in an attractive, well-designed atmosphere located in a trade area characterized by high income levels.7

Off-Price and Outlet Shopping Centers
An important distinction must be made between off-price retailers and outlet retailers. A factory outlet store is owned and operated by the manufacturer and

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7. Ibid., 18.
sells goods directly to the public. An off-price retailer is like a discount store that sells brand-name merchandise at lower prices than can be found elsewhere.

Although these terms could describe two different kinds of shopping centers, the off-price center and the factory outlet center are typically combined into a single entity. As a result, most outlet malls have a mixture of off-price retailers and factory outlet stores.

Off-price mega malls may contain 1.5 million to 2.5 million square feet and mix such tenants as factory outlet stores, department store outlets, category killers such as Black and Decker, and large specialty retailers. They may be located at the fringe of an urban area to intercept tourists and draw from a nearby large trade area without cannibalizing sales from manufacturers' full-price retail customers.  

Discount Shopping Centers

In its simplest form, a discount shopping center is a community center anchored by a discount department store. A discount shopping center generally differs from other types of shopping centers in at least two ways.

- A discount shopping center is smaller than a regional mall anchored by a department store.
- A discount shopping center has a lower percentage of national or regional tenants and, therefore, a higher percentage of local tenants.

Discount stores can be divided into three types. First-generation discount stores are the original discounters, who opened their stores in structures built for other purposes. Second-generation discount stores such as Wal-Mart were the first retail units to be built as discount stores. Third-generation discount stores were developed by traditional department stores to meet the competition from second-generation discount stores that started to infringe on the department store's trade area. These third-generation discount stores tend to be more aesthetically pleasing than second-generation stores and frequently offer more customer services. An example of a third-generation discount store is Target, which was started by the department store company formerly known as the Dayton-Hudson Company.

Discount stores are now found as the principal and only anchors of discount shopping centers, but they are also being combined with supermarkets as anchor tenants in community shopping centers and have recently been appearing in regional and superregional malls.

Power Centers

The International Council of Shopping Centers (ICSC) defines a power center as a 250,000-to-600,000-sq.-ft. property dominated by three or more generally

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8. Ibid., 17.
freestanding, large anchors, such as discount department stores, off-price stores, warehouse clubs, and category killers. As with lifestyle centers, developers sometimes create their own definitions, making the sector difficult to track. Popular anchors include Wal-Mart, Target, T.J. Maxx, Marshalls, Home Depot, Pier One Imports, Walgreens, and Kohl's. A power center with these stores is a formidable competitor to the mall.9

Power centers reflect a special retail concept. The power center seeks a high proportion of anchor tenants in gross leasable area, thus reversing the pattern of emphasizing higher rent in the spaces between the anchors and the end spaces.

**Big Box Stores**

The term *big box store* describes a very large building which houses a large-volume, chain retailer. Other names include *superstore*, *megastore*, and *supercenter*. Examples of big box stores in North America include Wal-Mart, Target, and Home Depot. They may be general merchandisers or specialize in one category.

Big box store structures are free-standing, rectangular, generally single-floor concrete block structures on concrete slab without many windows. The floor area generally exceeds 50,000 square feet and sometimes approaches 200,000 square feet. These stores tend to be located in suburban or rural areas with good freeway access as opposed to urban downtown districts. Gathered together, several big box operators can comprise a *power center*.

Critics of big box spaces describe them as being visually overbearing, wasteful of open space, and commercially detrimental to the smaller businesses in the community. Some critics take issue with the personnel policies of the operators. Supporters praise them for supplying everyday necessary goods at low prices.

**Shadow Anchors**

Some centers are said to have *shadow anchors*. This type of retail center has no anchor on its own premises but is located next to a large retailer with strong drawing power known as the shadow anchor. The smaller center has no responsibility for the management of the shadow anchor property and no control over how long it operates at that location, yet it benefits from the shadow anchor's drawing power. The Schostak Brothers Company in Southfield, Michigan, has built a portfolio based on this concept by locating near Wal-Mart stores.

**Hypermarket**

The hypermarket is a European derivative. In the United States, it is equivalent to the supercenter or superstore. A hypermarket is similar to a com—

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munity center in terms of the types and range of goods offered but is more similar to a regional center in terms of establishing a quasi-monopoly position. Essentially, a hypermarket is a horizontally integrated community center where the typical retailers of a community center—including the grocery, drug, apparel, and general merchandise stores—are operated by a single owner under one roof with a centralized checkout for all types of goods.

Because of the nature of the products sold by a hypermarket, it draws sales from both neighborhood and community shopping centers as well as freestanding retail establishments. The retail establishments least likely to be hurt by a hypermarket are regional shopping centers because they tend to carry higher fashion apparel and are more orientated to the needs of comparison shoppers. In addition, smaller neighborhood shopping centers and convenience centers may not be hurt by a hypermarket if their customers find them convenient places to shop quickly for a few items.

The advantages of a hypermarket are

- The overall shopping experience offered
- Availability of a wide range of goods under one roof
- Relatively low product prices

The disadvantages are

- A large floor area that must be covered, which is inconvenient for one-stop shopping
- Orientation to bulk purchases

Hypermarkets feature low-margin items in high-volume sales. Because of their large buildings and sites, they tend to locate in suburban areas with good auto access. Typical operators in the United States are Wal-Mart supercenters (which might typically cover 150,000 square feet) and Super Target. The origination of the concept is credited to the French Carrefour chain in 1965.

**Warehouse Stores**

Although a warehouse store is frequently a freestanding building, it represents an important form of retailing. Warehouse stores are big box retailers that sell a wide variety of goods in bulk quantities at deeply discounted prices. Industry leaders are BJ's, Costco, and Sam's Club. Product selection is limited in warehouse stores. Customers, who become members by paying an annual membership fee, may bag or box their own purchases in a no-frills environment. Warehouse stores enjoy comparatively large sales per square foot of **GLA**. High profits result from bulk purchases of a carefully limited selection of high-turnover merchandise and minimal advertising.
Lifestyle Centers

A lifestyle shopping center combines the traditional retail activities of a shopping mall with leisure amenities oriented toward upscale consumers. These centers are meant to be a convenient alternative to the “hustle and bustle” of the typical mall scene. Lifestyle centers first appeared in the late 1980s and became a retailing trend in the late 1990s. Because they require less land and can generate higher revenues per square foot, lifestyle centers became one way to redevelop large sites that were previously less successful as traditional malls. Lifestyle centers typically feature easier customer access, lower utility costs, and finer shopper amenities. An example of a lifestyle center is The Forum Shops in suburban Atlanta, Georgia.

Lifestyle centers are of an open-air design and usually include at least 50,000 square feet of space devoted to upscale national chain specialty stores. These types of centers typically range between 150,000 square feet and 500,000 square feet of leasable retail area and cater to the retail needs and lifestyle pursuits of their customers; they are usually upscale projects located near affluent neighborhoods.

Stores in lifestyle centers offer apparel, home goods, books, and music. The most commonly occurring stores are Ann Taylor, Banana Republic, Barnes and Noble, Bath and Body Works, Gap, Gap Kids, Pottery Barn, Talbots, Victoria’s Secret, and Williams-Sonoma.  

Other Designs

Some other design styles for shopping centers include vertical malls and transit-oriented centers. The vertical mall makes intensive use of a highly valuable site with multiple stories of retailing—a concept once thought to be unlikely to succeed. Water Tower Place on Michigan Avenue in downtown Chicago is an example of one of the earliest vertical malls. It features seven stories with shops and a 22-story hotel and condominiums above that. A team of developers in Manhattan is developing an eight-story center with 125 specialty shops at the site of the old Gimbels department store on the Avenue of the Americas near 52nd Street.

Transit-oriented development (often referred to as TOD) features commercial and/or residential development in close proximity to some form of public transit such as a train station, commuter train station, or bus station. The development immediately surrounding the transit station is high density, with progressively lower density at distances from the station. To maximize pedestrian traffic, the distance from the retail operations to residential or


employment centers is generally one-quarter to one-half mile. Secure pedestrian walkways, plantings, bike and scooter paths, and limited car parking are characteristic. TODs are an important part of recent trends toward smart growth and are one answer to the problems of global warming, urban traffic congestion, and energy shortages. Examples of this type of development pattern are visible in Arlington County, Virginia, where high-density, mixed-use development is concentrated within a half-mile from the Rosslyn, Courthouse, and Clarendon metro stations, with limited density outside that area.

**Home Improvement Centers**

Home improvement centers are retailing centers that cater to homeowners, builders, and remodelers. They offer building materials, tools, hardware, appliances, furnishings, decorating items, lawn and garden items and services, and other related goods. A home improvement center may be a single store such as Home Depot or an assemblage of such retailers.

**Inner-City and Downtown Centers**

As the development of suburban shopping centers from the 1950s through the 1980s caused a refocusing of retail away from downtown areas, these areas began to decline. Early efforts at revitalizing downtown areas emphasized office use over retail use. In the 1970s, festival shopping centers (like Faneuil Hall in Boston) and regional centers began to appear in downtown areas.

Large projects including retail stores (such as Water Tower Place in Chicago) started to become successful. Horton Plaza in San Diego is a regional center that blends into the old downtown area and functions like an anchor, sharing the shopping traffic instead of attracting it away from other retailers. Urban entertainment centers combine retailing with theater, sports, restaurants, and other entertainment attractions.

Town centers reflect an effort to recreate the appearance and ambiance of old downtowns, offering a mix of retail, office, and residential uses but also adding cultural, educational, institutional, and sports venues.\(^\text{13}\) They involve central planning to create a social experience as much as a retailing experience, and can be found in both new and old urban areas.\(^\text{13}\)

**Strip Centers**

Strip commercial development does not constitute a shopping center.\(^\text{14}\) A strip center is

- A string of independently developed, commercially zoned lots, or

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\(^\text{12}\) Kramer et al., Retail Development, 15.
\(^\text{13}\) Ibid., 24.
\(^\text{14}\) Ibid., 23.
• A string of retail commercial stores on a single site with no anchor tenant or central management. The tenant mix results from leasing to available tenants with good credit rather than planning and executing a leasing program.

Strip commercial development is usually linear and faces a street or parking lot; planning and design are not usually coordinated. Access, curb cuts, parking, and landscaping are often chaotic; site and building plans do not conform to any unified urban design; and the layout is decidedly pedestrian unfriendly, making it difficult to walk from store to store.\textsuperscript{15}

**Other Types of Shopping Center Space**

Appraisers will encounter other types of space in shopping centers and should recognize the following terms.

**Junior Anchor**

A \textit{junior anchor} is a space user that functions like an anchor in drawing shoppers but is smaller in area; it may be less than 50,000 square feet. Examples of junior anchors are Borders or Barnes and Noble.

**Junior Department Store**

A \textit{junior department store} falls between the classifications of a full department store and a variety store in terms of its size and selection of merchandise.\textsuperscript{16}

**Shadow-Anchor Center**

As previously mentioned, some centers have shadow anchors. A \textit{shadow-anchored center} has no anchors on its own premises but is located next to a large retailer with strong drawing power.

**End Cap Space**

\textit{End cap space} is the retail space located at the end of a line of stores in a center. It is sometimes thought to be more desirable because there is more store frontage and more opportunity for signage. More parking may also be accessible from this space. End cap space may appeal to restaurants and coffee shops.

**Inline Space**

\textit{Inline space} in a shopping center refers to the retail bays located between the anchors and the end caps.

\textsuperscript{15} Ibid., 23.

\textsuperscript{16} Appraisal Institute, Dictionary of Real Estate Appraisal, 4th ed. (Chicago: Appraisal Institute, 2002), 154.
Outparcel
An outparcel is a parcel of land adjacent to a shopping center that is improved such that it can be used by a tenant. Typical users of outparcels include banks and fast-food franchises.

Elbow Space
Elbow space is defined as the retail space located in the corner of a shopping center. Elbow space is sometimes thought to be less desirable because there is less store frontage and less opportunity for signage. Parking may also be further away. Elbow space may appeal to tenants less able to pay rent and may include service businesses.

Mixed-Use Development
One of the most popular development styles is mixed-use development. According to the industry press, a mixed-use development features the following characteristics:

- Some combination of residential, commercial, industrial, office, institutional, or other land use.
- Vertical alignment with at least three integrated uses that leverage off each other.
- Each use makes sense on its own in the market.
- Vitality all day and into the evening within the projects that have a residential component.

Mixed-use developments can be distinguished from multi-use developments, which may not offer any synergy between the different uses.\(^ {17} \)

Examples of mixed-use developments, either planned or completed, include:

- The Pollack Business Park North at Arizona Avenue and Elliot Road in Chandler, Arizona. Although Pollack has already redeveloped two of those corners, the firm is preparing to start its third and final phase. The 70,000-sq.-ft. development will feature a combination of retail, showroom, and light industrial space.
- Perimeter Place in Atlanta, Georgia. The project features 500,000 square feet of retail space, 328 apartments, and 230 condominiums.
- The Promenade Shops at The Spectrum in Pearland, Texas. The 615,000-sq.-ft. lifestyle center is part of a larger mixed-use development that also includes a 100-room hotel and 350 residential units.

\(^ {17} \) See the frequent articles in Retail Traffic magazine at http://retailtrafficmag.com.
Mixed-use development is at the heart of the new urbanism planning movement and it takes us back to the roots of our urban development, when people lived close to their work and shopping needs. In the past, residents lived in high urban densities and were able to travel between destinations by walking while mass transit systems took them to outlying destinations. Suburbanization occurred as people moved to escape pollution and the nuisance of industrial land uses, and people gradually developed a dependence on the automobile that helped to shape our pattern of land uses and the quality of life in urban areas. Today, planners strive to induce walkable communities and bring us back to the early values of mass transit as well as reduced travel needs and congestion.

Advantages of mixed-use developments to users and developers include the following:

- More people want to live in urban settings, and retailers, service businesses, and employers are striving to meet this demand for a “work-play environment.”
- Land costs and the availability of sites have become problematic in many markets. Combining housing with retail, office, and hotel uses helps to increase rentable or salable space and, as a result, cash flows.
- Since mixed-use projects tend to occur in mature markets, they tend to be more insulated from competition.
- These types of projects help the environment by using renewable water and energy resources.

Risks and challenges perceived in mixed-use development include the following:

- Our traditional mode of development has come to be a single use at a time, each on its own schedule. Mixed-use projects require that each use prove feasible and durable on its own. Developers and lenders see this as being too risky.
- Mixed-use projects can take a long time to mature, with profits elusive in early stages. With the standard discounted cash flow analysis, a short-term time horizon may cause a mixed-use project to appear to have more risk than a simpler, more familiar project with a short absorption period forecast.
- Mixed-use projects are usually large, urban designs attractive to those customers who value public and shared amenities rather than the private, controllable outdoor space of suburban living locations.
- Construction costs are typically higher for mixed-use developments than for simpler, single-use properties because of the higher demand for quality architecture associated with them.
- Land is typically more expensive for mixed-use development areas, and projects that are not near mass transit stations must provide lots of parking.
• Lenders prefer a project with a single, central control rather than one with divided ownership and responsibilities, even though the scale of the undertaking may indicate multiple parties.
• Mixed-use developments have a shallow pool of lenders and a limited market for investors who will buy it whole.

Economic Rationale for Shopping Centers

The successful operation of a shopping center is based on a number of economic relationships. These relationships have been discussed in economic and planning literature since the 1950s. Knowledge of these relationships and concepts will help appraisers and analysts understand the success of some shopping centers and the failure of others. These relationships and concepts are discussed in the following sections.

Principle of Cumulative Attraction

Retail establishments that sell similar, but not identical, shopping goods tend to locate in close proximity to one another. They do this because the number of potential customers entering each retail establishment that is part of this cluster is believed to be greater than the number of potential customers that would enter each establishment if it were not near its competitors. This relationship between potential customers and proximity to competitors is called the principle of cumulative attraction.\(^\text{18}\) This clustering can be seen in the location of auto malls around or near superregional malls and the presence of several auto dealerships within a relatively short stretch of a major street or highway. Other examples of cumulative attraction include a food court in a regional or superregional mall and a row of fast-food establishments at the intersection of two major streets.

Retail establishments that sell shopping goods also take advantage of the principle of cumulative attraction. However, their clusters are not as geographically concentrated as auto dealerships. Furniture and appliance dealerships also exhibit clustering tendencies.

The food court and fast-food rows mentioned earlier are clusters of convenience good providers. This is an unusual situation because retail establishments that sell convenience goods tend to repel rather than attract each other. Dry cleaners and laundries, drugstores, liquor stores, hardware stores, and other suppliers of convenience goods or services seldom, if ever, locate in close proximity to one another because most consumers of these goods shop at the closest available establishment. When the number of consumers and the

\(^\text{18}\) Richard Nelson, The Selection of Retail Locations (New York: F. W. Dodge Corporation, 1958), 57-64. This is one of the classics of retail literature.
purchasing power in a small geographic area increases, the demand for convenience goods also increases, and these establishments may be found relatively close to one another. However, these types of establishments are seldom found side by side, as is often the case with auto dealerships and fast-food operations.

The concept of product differentiation is related to the principle of cumulative attraction. Cumulative attraction is based on the premise that the shopping goods sold by competitors are similar, but not identical, as is the case with auto dealerships. The economic concept of product differentiation is relevant because consumers can differentiate between products based not only on real differences, but also on imaginary differences and the circumstances surrounding the sale of the product or service.

Using auto dealerships as an example, a consumer may know that the automobiles for sale are really different from each other. The quality of the materials and workmanship of Car A may be superior to the quality standards of Car B. Other consumers may choose among automobiles based on imaginary differences. A consumer may simply believe that Car A is better than Car B or choose Car A instead of Car B because it is better-looking. In this last instance, the decision is based purely on a cosmetic attribute. Finally, a consumer may choose between Car A and Car B based on the circumstances and helpfulness of the sales staff, the reputation of the service department, or the financing arrangements available.

The principle of cumulative attraction can be demonstrated by examining the tenants of a shopping center. Since the focus is on shopping goods, the regional shopping center exhibits the principle of cumulative attraction more than the neighborhood shopping center does. Analysis of the tenants in a regional center will reveal that retail establishments selling shopping goods such as women’s clothing, shoes, and jewelry are located in close proximity to each other. When a department store is brought into the picture, the extent of cumulative attraction expands when each department within the department store is viewed as a separate entity. The men’s department, women’s department, shoe department, and jewelry department of the department store broaden the opportunity for comparative shopping beyond the retail establishments in the mall area. In addition, many of the other departments in the department store have corresponding retail establishments in the mall that provide an opportunity for comparative shopping for electronics, bedding and linen, infant wear, greeting cards, books, and other goods.

**Generative, Supportive, and Suscipient Establishments**

A shopping center can also be viewed as a combination of generative, supportive, and suscipient retail establishments. Generative establishments are typically anchor stores, which do a great amount of advertising and

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19. ibid., 53.
attract potential customers to the shopping center. The supportive retail establishments are stores that typically do not advertise, but some may do a small amount of promotion. Supportive retail establishments provide a wide merchandise mix and the opportunity for comparative shopping. Supportive retail establishments include clothing, shoe, and jewelry stores.

The third type of retailer was described as “susciption” in Richard Nelson’s 1958 classic book on retail literature, *The Selection of Retail Locations*. In general dictionaries, this word indicates “receiving” or “one who receives.” Nelson used this word to describe a store that did not generate and did not support but sold to the consumers who were there. Today, synonyms would include *generative, supportive, coincidental*, or even *parasitic*. (No one travels to the shopping center to buy a pretzel, but once there, who can resist?) This type of sale is neither generated by the store nor its neighbors but attracted coincidently. Susciption businesses meet shopper needs for convenience goods and services including ATMs, shoe repair, and food operations. Customers are not initially drawn to the shopping center with a plan to visit these merchants but find them convenient once they arrive.

Some establishments are not easily classified under this threefold system. For example, a bookstore may be generative if the customer is an avid reader who goes to the mall specifically to buy a book and then stops to shop. A bookstore can also be a susciption retail establishment if a customer shopping for other goods goes into the bookstore to browse and finds something to buy. Similarly, record stores are not easy to classify. Shopping for musical recordings may be the generative activity for teenagers, while it may be a susciption activity for adults. Luggage shops and gift shops are also difficult to classify.

From one perspective, the analysis of a shopping center reflects the principle of cumulative attraction; another perspective reveals the existence of various generative, supportive, and susciption relationships.

**Retail Compatibility**

A shopping center will obviously be less successful if the retail establishments within the center are incompatible with one another. Compatibility refers to both merchandising mix and visual effect. The issue of merchandise mix has already been discussed, and visual effect can be explained by example. Imagine a motorcycle and lawn mower repair shop situated in a regional shopping center between the High Luster Jewelry store and the Lovely Lady boutique. Would the customers entering the shopping center consider the jewelry store and the women’s clothing store to be compatible? Of course they would. Would these same customers consider the motorcycle and lawn mower repair shop to be compatible with the women’s clothing and jewelry stores? The answer is likely to be no.

When there is a great degree of retail compatibility within a shopping center, the appearance of that shopping center is more pleasing and more op-
opportunities for comparison shopping are provided in those product lines that customers are seeking.

**Affinity Groupings**

Affinity groupings identify relationships between retail establishments that sell shopping goods. The shopping goods may be similar, as in the case of two women's clothing stores. In other cases, the concept of affinity groupings refers to two retail establishments that sell shopping goods that are related in the minds of consumers, such as a women's wear store and a women's shoe and accessory store. Affinity groupings can also refer to two retail establishments that are related because together they satisfy the consumer's desire for one-stop shopping. This situation is reflected in the relationship between a women's wear store and a family clothing or infant wear store.

Researchers have tried to establish a statistical relationship between the locations of certain stores within a shopping center. The working hypothesis is that stores in the same affinity groupings will locate either adjacent or in very close proximity to one another. Although the tenant arrangement postulated by the affinity grouping concept makes sense, a strong statistical relationship was not discovered.

Nevertheless, casual observation of a successful shopping center reveals that a spatial relationship exists among particular types of stores. Women's clothing stores and women's shoe stores are usually not found at opposite ends of a mall. Instead, a women's shoe store can often be found next to a women's clothing store or a few storefronts away.

**The Anchor Tenant**

The anchor tenant is the key to the success of a shopping center. It contributes enormously to the center's cumulative attraction potential and is the generative source of retail activity. It sets the stage for retail compatibility and

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**Exhibit 1.3** Comparison of Median Sales and Rent of Principal Tenants in U.S. Superregional Shopping Centers

<table>
<thead>
<tr>
<th>Tenant Classification</th>
<th>Sales per Sq. Ft. of GLA</th>
<th>Total Rent per Sq. Ft. of GLA</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department store (owned)</td>
<td>$163.99</td>
<td>$3.35</td>
<td>2.0%</td>
</tr>
<tr>
<td>Women's specialty</td>
<td>$458.62</td>
<td>$34.83</td>
<td>7.6%</td>
</tr>
<tr>
<td>Women's ready-to-wear</td>
<td>$314.08</td>
<td>$27.00</td>
<td>8.6%</td>
</tr>
<tr>
<td>Mixed apparel (w/m/c)</td>
<td>$377.23</td>
<td>$26.93</td>
<td>7.1%</td>
</tr>
<tr>
<td>Family shoes</td>
<td>$354.43</td>
<td>$32.49</td>
<td>9.2%</td>
</tr>
<tr>
<td>Jewelry</td>
<td>$958.99</td>
<td>$85.45</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

Source: Dollars and Cents of Shopping Centers/The Score 2008 (Washington, D.C.: Urban Land Institute, 2008), 44.
the creation of affinity groupings. Because the anchor is the most important component of a shopping center, this tenant is able to extract favorable rent rates. As shown in the following sample data, an anchor tenant's gross leasable area rent can be one-fifth to one-tenth of the rate paid by the tenants of the shopping center's speculative space. Anchor tenants argue that their expenditures for advertising to generate customer traffic to the center plus the reduced rent provides financial benefits equal to those provided by tenants who pay higher rents but incur little or no advertising expenses.

**Defining the Appraisal Problem**

There are many different occasions that require a shopping center to be appraised. Keep in mind that an appraisal made for one occasion, or intended use, may not be correct for another use. The appraiser and client need to define the appraisal problem. For example, an appraisal needed for the condemnation of a shopping center would be vastly different from an appraisal of the same shopping center needed for its mortgage financing. When a shopping center is taken in a condemnation action, the appraisal will usually require the capitalization of fair market rental income. On the other hand, many lenders require an appraisal to be based on the existing contract rental income. In appraisal terms, it is important to determine whether one is to appraise the fee simple interest or the leased fee interest of a shopping center. There is a comprehensive section in the Appraisal Institute's textbook *The Appraisal of Real Estate*, 15th edition, concerning the definition of the appraisal problem (see pages 132 through 156 of the textbook for a complete discussion). The nature of shopping centers may further complicate the definition of the appraisal problem.

When the landlord of a shopping center leases space to a tenant, quite often what is being leased is *space only*. This space is commonly referred to as a *vanilla shell*. Different developers have different specifications for their vanilla shells, but most have unpainted gypsum board-covered metal stud partition walls, smooth trowelled concrete floors, and acoustical tile ceilings in a suspended metal grid system. The heating, ventilation, and air conditioning system is provided with the capacity to maintain minimum conditions, such as summer indoor design conditions of 75°F and 50% ± 5% relative humidity at 95°F outside and winter design conditions of 70°F at -20°F outside. Electrical and lighting services as well as utility services are also specified at a minimum. The rental rates in most shopping center leases are for this vanilla shell space. As a result, when a mortgage financing appraisal is made of the leased fee interest, the income that is capitalized usually comes from leases that were negotiated for vanilla shell spaces. However, the entire property—including the tenant area finishes—is taken by the governmental unit when a shopping center is condemned. As a result, an appraisal that is
made for a shopping center that is to be condemned must accurately include the value of not only the vanilla shell but also the tenant finishes. In some states, appraisals done for ad valorem property taxation are to be of the fee simple interest and are to include tenant finishes. However, each state has its own case law and statutes that help define the appraisal problem. It is important for the appraiser and client, and sometimes the client's attorney, to come to terms on the definition of the appraisal problem.

Summary

A shopping center is a planned assemblage of commercial businesses that is developed, owned, and managed as a unit. Shopping centers are characterized by a unity of site and architecture, screened service areas, and a planned tenant mix. The major types of centers (superregional, regional, community, and neighborhood) are differentiated based on several criteria including size in gross leasable area (GLA), anchor type, site size, type of merchandise offered, and customer base. Other types of centers, identified as specialty centers, include festival centers, fashion centers, off-price and outlet centers, discount centers, and power centers. The appraisal of a shopping center must begin with the definition of the appraisal problem, which is a critical part of the evaluation of any shopping center. The economic rationale for the shopping center draws on the principle of cumulative attraction; generative, supportive, and suscipient relationships; retail compatibility; and affinity groupings.