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The Seattle Times: Retail turmoil triggers new visions for shopping malls like Northgate in Seattle

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The plan to reinvent Northgate Mall as a mixed-use development with office and residential in addition to retail fits with broader trends as retail landlords try new models.

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The retail model of car-centered shopping malls and large, multibrand stores continues to crumble, as the merging of digital and physical sales channels exacts its toll.

Northgate Mall owner Simon Property Group recently revealed plans to transform the 68-year-old shopping center, first developed in an age when people drove their cars for a day of efficient purchases. It now envisions a mixed-use development with offices, residences and open space alongside a reduced retail footprint.

Simon appears to be following a course set by other major mall owners as they face the reality of changing shopping patterns and a retail real-estate market that's vastly oversupplied — more so with each passing week as national chains give up the ghost. Toys R Us said Thursday it was closing all of its stores — some 735 locations across the country — after it struggled to compete with Amazon, Walmart and Target, and declared bankruptcy.

Mall owner Westfield poured $1 billion into its Century City mall in Los Angeles, reopening it last fall as a destination for dining out, health care and personal services, outdoor events and concerts, and also shopping — though only half the mall will be focused on fashion, including a new Nordstrom, which relocated from another L.A.-area mall. That would be Westside Pavilion, whose owner, Hudson Pacific Properties, said earlier this month it would be redeveloped for offices.

"All malls are going to have to be redeveloped and redesigned," said Ron Friedman, partner and co-leader of accounting firm Marcum's retail and consumer products group. "The 1970s-, '80s-, '90s-look, it's history. People don't want to shop in them anywhere."

For well-positioned property owners in growing markets like Seattle, this change represents a potential opportunity. Northgate, with its light-rail stop set to open in 2021, is 55 acres of transit-accessible space in a city bursting at the seams and hungry for homes and offices.

While Seattle-area malls have outperformed the national average in sales per square foot in recent years, Northgate's sales have been among the lowest in the region, not including anchor stores, according to estimates from independent retail location analyst Jeff Green.

“Obviously Northgate is struggling, the stronger U Village gets,” he said, referring to the more upscale, self-styled “open-air lifestyle shopping center” four miles away.

Simon’s nascent Northgate plans indicate 500,000 to 750,000 square feet of ground-floor retail, compared with a million square feet at the historic mall now. (It was one of the first to use the term mall when it opened in 1950.)

“This is good news for Northgate Mall to ‘right-size’ its retail while at the same time bringing in other uses,” Green said. “It is a great site for that.”

What about other retail property owners? “They’re in trouble,” Friedman said.

Howard Schultz, Starbucks’ executive chairman, thinks so too.

“We are at a major inflection point as landlords across the country will be forced (sooner than later) to permanently lower rent rates to adjust to the ‘new norm’ as a result of the acute shift (consumer behavior) away from traditional brick and mortar retailing to e-commerce,” Schultz said in a late-February memo to senior Starbucks executives.

He positioned this as good news for the coffee company as it looks to expand with new store formats.

On March 29, 157 Toys R Us stores — part of the first wave of closures announced earlier this year — will go up for auction. The company was paying lease rates ranging from $4.80 per square foot for a store in Albany, Georgia, to $26.62 for one in San Jose, according to a flier from the real-estate firm handling the liquidation of the toy seller’s real-estate assets. A Babies R Us in Spokane was leased for $6.65 a square foot.

But it’s not all bad news for physical retail. While many retailers are closing locations, others are opening them. A survey of 77 retailers by Forrester and the National Retail Federation’s digital division found that 43 percent expect to finish 2018 with a net increase in stores, while 16 percent expect their companies to have fewer. (But those stores that are added likely will employ fewer people. The same survey noted a strong interest in automation technologies that — if implemented successfully, which is a big if — would reduce the average number of employees per store.)

Simon has yet to fill in the specifics of its plans for Northgate, saying it would be “a several-year transformation of the property” including a lengthy review process with the city. But it looks, at least in concept, something like The Bellevue Collection, which is a cluster of buildings — including the 72-year-old Bellevue Square mall — with hotels, restaurants, movie theaters, apartments, and offices. And, yes, retail too. A similar mixed-use plan is taking shape at The Village at Totem Lake in Kirkland.

Developers would be able to build as tall as 95 feet in the Northgate neighborhood under the city’s plan to increase density in its urban villages.

“They’re going to build housing, high-rises, office space — all built around malls, so that people can live work and play in the same area,” Friedman said. “That’s the new mall.”