

Shopping centers look to entertainment, recreation to fill empty anchors



Mall operators including General Growth Properties are filling some retail space with new kinds of tenants, including entertainment and recreation businesses.

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Chicago Tribune

SEPTEMBER 16, 2016, 2:21 PM

At Woodfield Mall in [Schaumburg](#), shoppers can take in a comedy show, let kids burn off energy at the playground, get a manicure, peruse fine art and dine at a Pac-Man-themed restaurant where dishes are punctuated by bowling, arcade games and table tennis.

Oh, and there are stores, too.

"We want to give shoppers variety," said General Manager Kurt Webb. "It rounds out our tenant mix and provides an option for people to do more here than they might have done 10 years ago."

Department stores that anchor malls and shopping centers used to be the attraction that drew people to malls. But Americans' shopping habits are changing as they shift spending to experiences, not stuff, and online buying

options grow easier than ever. That has some retailers looking to cut stores, and mall operators bringing in new businesses they hope today's consumers will find more of an attraction.

Movie theaters and malls have been pairing up for years. But shopping center operators have been increasingly open to entertainment options, particularly in the last few years as more big-box and mall anchor tenants have been closing, said Lynne Brackett, first vice president with real estate firm CBRE.

Nationwide, there has been about a 6 percent increase in the amount of large shopping center space filled by tenants in the recreation business in the last four years, mostly coming from movie theaters, said Suzanne Mulvee, research director and senior real estate strategist at the CoStar Group. Overall shopping center space was up 0.8 percent, while space filled by apparel stores fell by about 3 percent, she said.

In the Chicago area, health and home goods stores saw much of the growth — up 15 and 25 percent, respectively — while square footage for recreation was down 0.2 percent in the last four years. Several furniture companies have been expanding in the Chicago area, Brackett said. But she expects recreational use to pick up as more big-box and mall anchor stores come on the market, and some of the biggest retail leases signed this year have gone to entertainment and fitness concepts, according to a report from CoStar.

Orland Square Mall is getting a nearly 29,000-square-foot Sky Zone trampoline park and 33,600-square-foot Gizmos Fun Factory, a kids' entertainment business with an indoor ropes course, according to a report from CoStar, and Emagine Entertainment is bringing a luxury 10-screen movie theater to a former Frankfort Dominick's.

That doesn't mean a recreational tenant is a landlord's first choice, since such companies often can't afford typical retail rents, but there just aren't many retailers looking to add more big-box and anchor spaces, Brackett said. When Macy's announced plans to close 100 stores last month, Chief Financial Officer Karen Hoguet cited an "overstored" U.S. market.

"If they're doing a deal with an alternative user, they've probably exhausted the possibility of getting a retailer in there. But this is a good alternative," Brackett said.

In a September presentation to investors, Chicago-based mall operator General Growth Properties said redeveloping those underperforming anchor spaces could be a "win-win."

The smaller stores in its malls are driving traffic, not the traditional department store anchors, according to General Growth. Sales at anchors that report sales were down about 10 percent over the decade leading up to 2015, while sales at smaller mall stores were up 33 percent, according to the presentation.

General Growth can't replace every underperforming anchor — of the 60 million square feet of anchor space in its portfolio, the mall operator only owns 17 million, with the rest largely owned by the anchors, said spokesman Kevin Berry.

But over the last five years, it's been acquiring those spaces for redevelopment when possible. Of 80 former anchors it's redeveloped, 17 remained traditional department stores. The rest were carved up into smaller stores and restaurants or turned into grocery stores and entertainment concepts.

At General Growth's [Oakbrook Center](#), a former Bloomingdale's was split between about a half dozen stores, including upscale home appliance retailer Pirch and yoga apparel outfitter Lululemon Athletica. General Growth also took back the lower level of a Neiman Marcus and added two restaurants, and is working on similar plans for a portion of the mall's Sears. An upper-level stretch of shops also is being redeveloped with a movie theater and fast-casual restaurants. The mall also hosts events like outdoor films and a Christmas market.

Since retail tenants in smaller stores typically pay more per square foot than large entertainment tenants, a mall operator might earn more by dividing an anchor. But Berry said making space for entertainment can improve the mix of options at a mall, draw foot traffic and encourage visitors to stay longer.

"It's part of a bigger strategic decision, where we're looking at what we want the mall to look like, what it's missing, and what we need to add to make it a stronger center," Berry said.

Although it's not clear how many people who come for the entertainment will stay and shop, going out for dinner and a movie or a round of bowling is harder to replace online than shopping, Mulvee said.

Yelena Savenok, of Wheaton, said the playground at Yorktown Mall gives her 2-year-old son a chance to take a break from shopping during family trips to the mall.

"If there's something for the kids, moms get to stay longer," she said.

Abbey Kenney, of Downers Grove, said she still likes shopping at department stores at her local mall, Oakbrook Center, but is looking forward to the new theater and restaurants.

"It creates that one-stop shop," she said.

Entertainment concepts are also often willing to fill less-desirable space on upper floors or slightly set back from a main retail road, unlike a retailer hoping to snag shoppers with appealing window displays.

West Coast rock climbing gym operator Planet Granite, which is opening two Chicago gyms in 2018, and Bear Paddle Swim School, which runs indoor kids' swimming lessons, said they target properties that are just far enough from premium retail spots to be both convenient and affordable.

"A business like ours is a destination. We don't need to be next to Whole Foods," said Robin Everson, Bear Paddle's director of operations. Bear Paddle has a school in a former Tuesday Morning store in Woodridge and another in a former Aurora Sports Authority, he said.

Movie theaters still dominate, but Brackett said she's seeing more interest in newer entertainment concepts that have emerged.

"Climbing has become more mainstream, so now we're an acceptable use," said Planet Granite founder Micky Lloyd. "Landlords who 10 years ago would never have talked to us are actively courting us at this point."

Sky Zone CEO Jeff Platt said it also took time for retail landlords to get comfortable with indoor trampoline parks.

"We needed to get the market to understand it, whether it's viable and helps other tenants in the market," he said.

Before 2013 — about nine years after the first Sky Zone opened — most were in industrial parks. Now, 95 percent of new leases are in retail areas, which are more convenient for customers, Platt said. The company has locations in Aurora and Elmhurst and is opening another in a former Dominick's in Joliet in October. A fourth suburban park is headed to Orland Park and will have an "American Ninja Warrior"-style obstacle course as well as trampolines.

Entertainment facilities often require a lot of upfront investment — Platt estimates a new 25,000-square-foot Sky Zone park might cost around \$2.5 million — so neither party wants to sign a lease on a concept that's just a fad.

One way to ward off "been there, done that"? Entertainment districts that offer a range of options in a single venue or area of a mall, said Gregory Silvers, CEO of EPR Properties, a real estate investment trust that specializes in entertainment, recreation and education.

EPR has several Chicago-area properties, including a Warrenville movie theater and the adjacent Main Event Entertainment facility with bowling, laser tag, arcade games and dining, as well as Pinstripes and Punch Bowl Social bowling alleys next to malls in Northbrook, Oak Brook and Schaumburg.

"You want people to say, 'I don't know what we want to do tonight, but we can find it there,'" Silvers said.

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