

## Trends in the Shopping Center Industry

New terminology and innovative ideas are continually emerging in the shopping center industry. Previously dominated by the traditional style enclosed mall, there is now a multitude of design styles that developers may choose from when renovating or building a shopping center. A new lexicon has emerged to define these novel venues: lifestyle, omnicenter and greyfield. These and other trends occurring in the shopping center industry are beginning to appear in Montgomery County.

The most current trend in the industry is the proliferation of “lifestyle centers,” designed not just for shopping, but for ambience as well. Poag and McEwen developed the first lifestyle center—The Shoppes at Saddle Creek in Memphis, Tennessee. This new type of shopping center was designed especially with the upper-income shopper in mind, ample sidewalks, parking adjacent to stores, entertainment facilities, and upscale restaurants and stores.<sup>7</sup> According to the International Council of Shopping Centers (ICSC), there are currently 132 Lifestyle Centers in the United States, with an additional 42 under development.<sup>8</sup> They attempt to mimic urban life and provide shoppers with a comfortable environment connected to its surroundings. The scale and scope of Lifestyle Centers, however, continues to change. These Centers started out on the smaller side, around 150,000 square feet of retail space.<sup>9</sup> As of May 2005, the average size had increased to 377,000 square feet. And for those Lifestyle Centers still in the development pipeline, the average size is 500,000 square feet.<sup>10</sup> Lifestyle Centers are very popular among developers due to their smaller land requirement. Examples of lifestyle centers in the Washington DC region include Fairfax Corner in Northern Virginia and Washingtonian Center off I-370 in Montgomery County. Washingtonian Center provides shopping, entertainment, and food venues within a pedestrian and vehicular friendly environment. Expansive sidewalks and pedestrian walkways abound, in addition to both street-front parking and parking garages. Greenery and water features, including a lake, provide additional ambience.

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<sup>7</sup> Pristin, Terry. “A Conflict Between the Mall and the Town Center.” *New York Times* 7 July 2004: C6.

<sup>8</sup> Lifestyle Center Experience Robust Expansion; Assume Prominent Position on the Retail Landscape.” *PR Newswire: United Business Media* 23 May 2005.

<sup>9</sup> Pristin, Terry. “A Conflict Between the Mall and the Town Center.” *New York Times* 7 July 2004: C6.

<sup>10</sup> “Lifestyle Center Experience Robust Expansion; Assume Prominent Position on the Retail Landscape.” *PR Newswire: United Business Media* 23 May 2005.

At the same time that Lifestyle Centers are becoming more pronounced, the lines dividing other center styles are blurring. Debra Hazel, contributor to *Shopping Centers Today*, has coined the term “Omnicenter” to define those centers that combine aspects from traditional malls, power centers, and lifestyle centers. Hazel attributes the growth of such centers to tenants’ desire for lower common space costs and consumers tendencies to cross-shop<sup>11</sup>.

Will Traditional Malls continue to be built? There are mixed-reviews about the continued success of the traditional mall style. Susan Warren points out in areas where temperatures continually peak over 100 degrees, many people utilize a mall as a source of air-conditioning, establishing a continued need for this mall type.<sup>12</sup> Greg Maloney also points out the staying power of regional malls. Though they have faced many threats, all have been averted. He believes malls need to take steps to readdress their customers, but that they will remain viable.<sup>13</sup> However, others feel if the traditional mall is not already dead “the flowers have been ordered and the grave has been dug.”<sup>14</sup> The International Council of Shopping Centers estimates there are approximately 1,200 regional malls currently in the country, with that number expected to decrease to 900 within the next couple of years.<sup>15</sup>

The future success of Power Centers is also on the line. Power Centers were a 1990s phenomenon: the number of Power Centers increased 61 percent between 1993 and 1995. Yet, at decade’s end, the number of Power Centers under construction had increased a mere 2 percent. According to the ICSC, as of 2003, there were 1,100 Power Centers in the United States. We may speculate, had developers maintained the construction levels of the early 1990s, over 2,000 such shopping center types could have been built. Why then this decline in Power Center construction? One explanation may well be the fear of an anchor “going dark”— i.e., an anchor vacating its space and preventing the Power Center developer from finding a replacement. Wal-

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<sup>11</sup> Hazel, Debra. “Three in One: Omnicenters Blend Aspects of Malls and Power and Lifestyle Centers.” <[http://www.icsc.org/srch/sct/sct0305/dev\\_lease\\_1.php?region=>](http://www.icsc.org/srch/sct/sct0305/dev_lease_1.php?region=>)>. *Shopping Centers Today*, Mar 2005.

<sup>12</sup> Warner, Susan. “Enclosed Mall? You Bet Its 120° Out.” *Shopping Centers Today* Mar 2005. <[http://www.icsc.org/srch/sct/sct0305/cover\\_3.php?region=>](http://www.icsc.org/srch/sct/sct0305/cover_3.php?region=>)>.

<sup>13</sup> Maloney, Greg. “The Mall is Not Dead...” *Retail Traffic* 1 May 2005.

<sup>14</sup> Pristin, Terry. “Shopping Malls Adopting New Strategies to Survive.” *New York Times* 2 Mar 2005: C7.

<sup>15</sup> Ibid.

Mart is a case in point. Wal-Mart vacates approximately 100 spaces a year. Of the spaces it has vacated, Wal-Mart still owns 160 empty structures.<sup>16</sup> Thus, the developer community finds the loss of even one big-box retailer non-desirable. The costs of constructing and maintaining a Power Center are prohibitive.

Location of shopping center construction has also shifted. Whereas most Regional, Super Regional, and Power Centers are found on the urban fringe, Lifestyle Centers are being built in urban infill areas. They are able to utilize this space due to their smaller size compared to other mall types. Lifestyle Centers are also being incorporated into master-planned mixed-use communities.<sup>17</sup> A jurisdiction's zoning ordinance also affects shopping center location. The City of Rockville, for instance, prevents big-box development through a series of development standards, including maximum size, window requirements and varying rooflines. Montgomery County, while not limiting any specific type of retail, does require all retail establishments to meet specific standards. A retail store that exceeds 120,000 square feet and includes a pharmacy and grocery store, for example, could apply for permitting only in a C-2 or C-3 zone. Additionally, it must go through a special exception process which requires the County's Development Review staff to consider the proposed establishment's traffic impact, surrounding uses, setbacks, building coverage, parking and lighting before making a recommendation to the planning board and the zoning examiner. More importantly, the special exception process requires public notification, comment, and hearing.

The shopping center industry is also looking abroad for new and innovative ideas, and also for solutions to the problems some shopping centers are facing today. One major obstacle the industry faces is the decreasing amount of space available for retail development. A solution may lie in giving developers the flexibility to contain the same gross floor area within a smaller footprint: allow them to build up.<sup>18</sup> One problem with this alternative is how do shoppers get their carts from one floor to the next? Target, following a technique used by stores in other

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<sup>16</sup> Hershey, Thomas H. "Retail Research Report." *Marcus and Millichap*: 2005 Semiannual Report.

<sup>17</sup> Gose, Joel. "A Golden Age for Lifestyle Centers." *National Real Estate Investor* 1 Nov 2004.

<sup>18</sup> Groover, Joel. "Foreign Ideas: U.S. Looks Abroad for Latest Shopping Center Innovations." <[http://www.icsc.org/srch/sct/sct0305/cover\\_1.php?region=>](http://www.icsc.org/srch/sct/sct0305/cover_1.php?region=>)>. *Shopping Centers Today*, Mar 2005.

countries, has incorporated special escalators for shopping carts in some of its US stores.<sup>19</sup> The industry is also trying out new configurations of tenants. Neiman Marcus and Target will, for the first time, share space in a mall that is scheduled for completion in 2008<sup>20</sup>.

Another growing trend is the desire to rehabilitate and renovate shopping centers that are considered “greyfields.” Greyfields are shopping centers that no longer serve the needs of the area, often due to the construction of newer shopping centers in close proximity. However, these mature shopping centers occupy valuable land that could provide the community with opportunities for change.<sup>21</sup> Some have been turned into needed schools, medical and social service centers, government offices, libraries, and housing. This is one avenue Montgomery County is currently studying. Montgomery County is looking towards expansive parking lots, vacant stores, and under-performing shopping centers as potential mixed-use development projects. A number of developers are in discussions with the County on ways they could redevelop their property.

Retail development projects underway in Montgomery County include White Flint Crossing and Twinbrook Commons. White Flint Crossing, a mixed-use development with 230,000 square feet of retail and 435 residential units, is scheduled to open in 2008. It is yet another new development in the prized Rockville market to be located at the intersection of Rockville Pike and Executive Boulevard. JBG Rosenfeld, a Bethesda-based developer, is not only bringing White Flint Crossing to the Rockville area, but is also developing Twinbrook Commons. Twinbrook Commons is a mixed-use development with 187,000 square feet of retail, 60,000 square feet of office space and 579 residential units. Twinbrook Commons will be located adjacent to the Twinbrook Metro station. Also new to the Rockville retail market is the rehabilitation and redevelopment of the Rockville Town Center, which is being spearheaded by the City of Rockville.

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<sup>19</sup> Groover, Joel. “Foreign Ideas: U.S. Looks Abroad for Latest Shopping Center Innovations.” <[http://www.icsc.org/srch/sct/sct0305/cover\\_1.php?region=>](http://www.icsc.org/srch/sct/sct0305/cover_1.php?region=>)>. *Shopping Centers Today*, Mar 2005.

<sup>20</sup> Hazel, Debra. “Neiman, Target Share Mall for First Time.” <[>](http://www.icsc.org/srch/sct/sct0505/dev_leasing_6.php). *Shopping Centers Today*, May 2005.

<sup>21</sup> A relatively simple method to determine whether a shopping center is “greying” would be to calculate the improved value to land value assessment (I/L ratio). An I/L ratio less than 1.0 would indicate that the shopping center may be ripe for redevelopment—the land is worth more than the improvements or structures.

The retail sector is a continually evolving and innovative field. Montgomery County is happy to be at the forefront of these trends and looks forward to the aforementioned and future growth of its retail sector.

## **Appendix One: Zoning Code Definitions**

**Zoning Legend** –Below is an explanation of zones found in this directory.<sup>22</sup> Unless otherwise noted, zones are per Montgomery County Zoning Ordinance.

C-1	Convenience Commercial
C-2	General Commercial
C-3	Highway Commercial
C-4	Limited Commercial
C-6	Low-Density Regional Commercial
CBD-1	Central Business District 1.0
CBD-2	Central Business District 2.0
CBD-3	Central Business District 3.0
I-1	Light Industrial
I-2	Heavy Industrial
I-3	Industrial Park
I-4	Low Intensity, Light Industrial
MXD	Mixed-Use Development
MXPDM	Mixed-Use Planned Development
O3	Restricted Office, City of Rockville
PD-4	Planned Development, Medium-Low Density
PD-5	Planned Development, Medium-Low Density
PD-7	Planned Development, Medium-Low Density
PD-9	Planned Development, Medium Density
PN	Planned Neighborhood
PRC	Planned Retirement Community
R-60	Residential, one family
R-90	Residential, one family
R-200	Residential, one family (formerly R-R)
R-T	Residential, townhouse
RMX-1	Residential Mixed-Use Development, Community Center

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<sup>22</sup> Further information on each zone can be found at  
[http://www.amlegal.com/montgomery\\_county\\_md/](http://www.amlegal.com/montgomery_county_md/)  
[http://www.rockvillemd.gov/government/cpds/citywide\\_zoning.pdf](http://www.rockvillemd.gov/government/cpds/citywide_zoning.pdf) for the City of Rockville.  
[http://www.gaithersburgmd.gov/documents/zoning\\_3\\_2005\\_low.pdf](http://www.gaithersburgmd.gov/documents/zoning_3_2005_low.pdf) for the City of Gaithersburg.

RMX-2	Residential Mixed-Use Development, Specialty Center
RMX-3	Residential Mixed-Use Development, Regional Center
RMX-3TD	Residential Mixed-Use Development, Regional Center/Transferable Development Rights
RPC	Rockville Pike Commercial
RS	Rural Service
TCM-1	Town Center Mixed-Use One, City of Rockville
TCM-2	Town Center Mixed-Use Two, City of Rockville
T-S	Town Sector



**Appendix Two: Distribution of Shopping Centers by Planning Area**

**Appendix Three: Selected Developers and Leasing Companies**

**The Artery Group LLC**

7200 Wisconsin Avenue, Suite 1000  
Bethesda, Maryland 20814  
301.961.8000 p / 301.961.8001 f  
<http://www.arterygroup.com/>

**The Beatty Companies**

6824 Elm Street, 2nd Fl  
McLean, VA 22101  
703-821-0500 p / 703-442-7545 f

**Carl M. Freeman Retail**

18330 Village Center Drive, 2nd Fl  
Olney, MD 20832  
240.779.8000p / 240.779.8180 f  
<http://www.freemancompanies.com/corp/shop-better/>

**CB Richard Ellis - Washington, DC**

1650 Tysons Boulevard, Suite 1500  
Vienna, VA 22102  
703-734-4700 p / 703-448-7653 f

**Combined Properties, Inc.**

1255 22nd Street NW, Suite 600  
Washington D.C. 20037  
202.293.4500 p / 202.833.3013  
<http://www.combined.biz/>

**Congressional Realty Group**

6500 Rock Spring Drive, Suite 302  
Bethesda, MD 20817  
301.564.1716 p / 301.530.1582 f  
<http://www.crgroup.net/>

**Divaris Real Estate - Rockville**

11300 Rockville Pike, Suite 704  
Rockville, MD 20852  
301.231.4877 p / 301.231.5854 f

**DLC Management Corporation**

1202 Goucher Boulevard  
Towson, MD 21286  
410.821.0303 p / 410.821.9056 f

**Douglas Development**

702 H Street NW, Suite 400  
Washington, DC 20001  
202.638.6300 p / 202.638.0303 f

**Federal Realty Investment Trust**

1625 E. Jefferson Street  
Rockville, MD 20852  
301.998.8100 p / 301.658.8980 f  
<http://www.federalrealty.com/index.php>

**Finmarc Management Inc.**

4731 Bethesda Avenue  
Bethesda, MD 20814  
301.656.4111 p / 301.656.0515 f  
[www.finmarc.com](http://www.finmarc.com)

**First Washington Realty, Inc.**

4350 East-West Highway, Suite 400  
Bethesda, MD 20814  
301.907.7800 p / 301.907.4911 f  
<http://www.firstwash.com/>

**Gates, Hudson & Associates**

[http://www.gateshudson.com/gateshudson/  
index.html](http://www.gateshudson.com/gateshudson/index.html)

**H & R Retail**

8401 Connecticut Avenue, Suite 1202  
Chevy Chase, MD 20815  
301-656-3030 p / 301-656-6222 f

**JBG Rosenfeld Retail**

4445 Willard Avenue, Suite 700  
Chevy Chase, Maryland 20815  
301.657.0700 p / 301.657.9850 f  
<http://www.jbgrosenfeld.com/home.htm>

**KLNB Retail II**

8027 Leesburg Pike, Suite 300  
Vienna, VA 22182  
571.382.2074 p / 703.288.2999 f

**Kramer Enterprises**

49 Randolph Road  
Silver Spring, MD 20904  
301-236-9411 p / 301-236-9413 f

**Lerner Corporation**

11501 Huff Court  
North Bethesda, MD 20895  
301.984.1500 p / 301.770.0144 f  
<http://www.lernerenterprises.com/>

**The Magruder Companies**

12165 Darnestown Road  
Gaithersburg, MD 20878  
301.921.9050 p / 301.921.0507 f

**Randall Hagner**

1321 Connecticut Avenue, NW  
Washington, DC 20036  
202.857.4300 p / 202.785.7378 f  
<http://www.hagner.com/default.asp>

**The Rappaport Companies**

8405 Greensboro Drive, Suite 830  
McLean, VA 22102-5118  
571-382-1290 p / 571-382-1210 f  
<http://www.rappaportco.com/>

**Saul Centers, Inc.**

7501 Wisconsin Avenue, Suite 1500  
Bethesda, MD 20814  
301.986.6200 p / 301.986.6079 f  
<http://www.saulcenters.com/>

**Shary Thur & Associates**

8260 Greensboro Drive, Suite 275  
McLean, VA 22102  
703.847.0865 p / 703.847.1435 f  
<http://www.sharythur.com/sthur/index.html>

**StreetSense**

301.652.9020 p  
<http://www.street-sense.com/>

**Vanguard Realty Group**

7200 Wisconsin Avenue, Suite 501  
Bethesda, MD 20814  
301 547-1000 p / 301 547-1005 f

**Washington Real Estate Investment Trust**

6110 Executive Blvd. Suite 800  
Rockville, MD 20852  
301-255-0846 p / 301-984-9612 f  
<http://www.writ.com/>

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