The Wall Street Journal
July 6, 2010

THE WALL STREET JOURNAL.
TUESDAY, JULY 6, 2010 - VOL. CCLVI NO. 4

Kill the Main Roof, Add a Big Plaza

BY KRIS HUDSON

Daryl Peveto/LUCEO for The Wall Street Journal

The reconstruction of the Santa Monica Place mall cost $265 million. The three-level complex has no roof, reflecting a trend toward open-air malls.

SANTA MONICA, Calif.—Two blocks from the beach in this affluent Los Angeles suburb, retail landlord **Macerich** Co. aims to reinvent the American shopping mall.

In 2008, Macerich shut down the 1980s-era Santa Monica Place mall, an enclosed, monolithic structure that clashed with the tree-lined walkways of the adjacent, redeveloped Third Street Promenade shopping district.

Two years and $265 million later, Macerich intends to reopen the overhauled Santa Monica Place early next month as a venue outfitted with several of the industry's cutting-edge features.

Macerich rebuilt the three-story, 550,000-square-foot mall without a main roof and divided the space using canyon-like corridors of storefronts that converge at the center on a big, open-air plaza.

The mall's top floor will just be restaurants, including chef Richard Sandoval's Zengo and La Sandia and a 10-store food court.

The mix of stores at Santa Monica Place will include luxury vendors like **Tiffany** & Co. and **Burberry** Ltd. as well as such mass-market vendors as **Nike** Inc. and **Crate & Barrel**'s CB2.

At a desk located in the central plaza, shoppers will be able to send mall employees on errands as they would a hotel's concierge.

Macerich's ambitious reinvention of Santa Monica Place is an early sign of a subtle evolution in the U.S. mall industry. For decades, the strategy was to build new malls in outlying areas in anticipation of suburban growth. Now, landlords like Macerich, which owns 71 U.S. malls, are shifting more time and resources to renovating and upgrading existing properties.

"It's a reflection of the maturation of the industry," says Jim Sullivan, an analyst with **Green Street Advisors** Inc. in Newport Beach, Calif. "The prospects for new retail developments on the edge of town are unlikely in the next couple of years."

Simon Property Group Inc., the largest U.S. mall owner with 321 retail properties, has earmarked its entire $200 million-plus construction budget this year for renovation and redevelopment rather than new building. **General Growth Properties** Inc. has done the same as it attempts to emerge from bankruptcy protection this year. As a result, construction of new retail space has fallen sharply.

"All of the key players in our business are going to be focused on taking strong existing assets and making them stronger by redeveloping them," says Art Coppola, Macerich's chief executive.

Retail construction hit its most recent high in 2008, when developers opened shopping centers totaling 141.5 million square feet in the 54 largest U.S. markets, according to real-estate research company **CoStar Group**. But CoStar predicts that

Please turn to the next page

Kill the Main Roof, Put In a Big Plaza

Continued from the prior page

developers will deliver just 18 million square feet of new stores in the top 54 markets this year and 20 million in 2011.

With landlords now focused on redevelopment, there is a risk that those efforts will focus on more affluent areas.

"If you're going to spend tens of millions of dollars as an owner, you'd rather do it in markets where you're getting [annual] rents of $100 to $150 per square foot," Mr. Coppola says.

Santa Monica is one of those markets, with a median household income that handily outpaces the national average and an entertainment industry that likes to gather, see and be seen.

Daryl Peveto/LUCEO for The Wall Street Journal

A view of the Santa Monica Pier from the rooftop patio of the Santa Monica Place mall.

At Santa Monica Place, Mr. Coppola is banking on annual sales reaching $1,000 a square foot, which is more than the $800 average at the adjacent Third Street Promenade, which reopened in September 1989 following its renovation. Before its redevelopment, Santa Monica Place averaged $350 to $400 a square foot, he says.

The rents that retailers have agreed to pay at Santa Monica Place average $150 a square foot, including payments for utilities and other costs. That, too, mimics the Third Street Promenade. When it opens, Santa Monica Place will be 74% occupied, climbing to 80% shortly thereafter.

Among the mall's new twists are the replacement of its former department stores—Macy's Inc. and Robinsons-May—with **Nordstrom** Inc. and a boutique version of Bloomingdale's.

The third-floor dining deck will offer 800 seats on its patios and in its food court, and most of them will have views of the Pacific Ocean or the Santa Monica Mountains.

Santa Monica Place has its challenges. It has on-site parking for 2,000 cars, which isn't very much for a mall its size, though Macerich says parking is available at public garages nearby.

Macerich has also gambled by putting its restaurants on the third floor. Most malls place their restaurants in easily accessible locations, such as near ground-floor entrances.

But Macerich counters that the mall has six elevators and several escalators that can whisk shoppers to its dining deck.