

POLICY BRIEF

Has the Retail Apocalypse Hit the DC Area?

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In 1977, the White Flint Mall opened to great acclaim as Maryland's premier mall, complete with glass elevators, glamorous anchor stores, and an exciting eatery. Now, more than four decades later, White Flint Mall is situated in a sea of empty parking lots. Except for anchor tenant Lord and Taylor, with which the mall owner is in protracted litigation, the mall sits empty.

About a decade before White Flint launched, Northern Virginia's Tysons Corner Center opened, also to acclaim. Tyson's Corner has seen continued success,² welcoming Apple's flagship store in 2001,³ and Spanx's first brick and mortar store in 2012.⁴ The promised increase in walkability ushered in by the Silver Line expansion has heralded opportunity for new residential and commercial development.⁵

To what extent is this divergence due to e-commerce?

The Rise of E-commerce

E-commerce dates to 1994, when the New York Times reported that Philadelphia's Phil Brandenberger used his computer to purchase a Sting album. In the following year, Amazon sold its first book, and Pierre Omidyar founded Ebay.⁶

Despite the major gains in online shopping, e-commerce accounts for only about ten percent of total retail sales in 2017, or a total volume of about \$450 billion.⁷

Comparison with e-commerce penetration in the much larger manufacturing and wholesale sectors - at about 60 and 30 percent respectively - suggests that there is plenty of room for future growth for retail e-commerce.⁸

The National Retail Landscape

Major media coverage - "Three ways to survive a retail meltdown" (Citylab) or "Who will the 'retail apocalypse' claim in 2018?" (BBC News) - suggests that the imminent downfall of brick-and-mortar retail has arrived. Indeed, a recent report by Credit Suisse⁹ predicts that up to 25 percent of U.S. malls - or about 275 malls - will close by 2022. Analysts predict the largest number of closures in low-income regions that rely heavily on shopping centers for local employment.

Indeed, there is substantial evidence that brick-and-mortar retail is suffering. CNN Money¹⁰ reports that 2017 marked the highest number of retail store closure announcements in history. Within the past year, once-prominent malls in New Jersey and Pennsylvania have closed almost 200 stores. And the wave seems unlikely to be over: Toys R Us has recently declared bankruptcy, while long-time anchor tenants Sears, Kmart, J.C. Penney, and Macy's have for years been trying to rebrand themselves to stay afloat.

However, the e-commerce tsunami has not hit all areas equally. Anecdotes suggest that the low end of retail - Dollar Stores, Big Lots and their kin - have competed well against e-commerce. At the other end of the spectrum, luxury has also remained relatively unscathed. In both cases, e-commerce provides a poor substitute.

More broadly, there are reasons to be less pessimistic about the future of retail in cities. First, it is increasingly common to find firms using their in-person retail to promote sales online, or using online traffic to drive in-person sales. More and more originally online-only retailers - including eyeglasses maker Warby Parker, mattress-maker Casper, Bonobos, AHA Front, and Pintrill - are opening physical stores. Nearly a third of respondents in a recent survey¹¹ said it was important for a retail brand to have both a physical store and an e-commerce function. And perhaps nothing illustrates this complementarity better than Amazon's recent purchase of Whole Foods.

In addition, in looking at national figures, it is hard to see a full-blown retail apocalypse. Figure 1 uses blue lines to show the average annual payroll per employee (\$1000s, 2017 dollars) both for the DC area¹² (heavy line) and the US (lighter line). Over the period 1975 to 2015, the DC area has somewhat higher wages across all industries.

When we concentrate on the retail sector - the green lines show payroll per employee in retail - it is clear that retail wages have always been lower than overall wages, and that DC-area retail wages have always been slightly higher than the national average. Furthermore, even after the rise of e-commerce in 1995, we see no strong decline in the wages of retail workers.

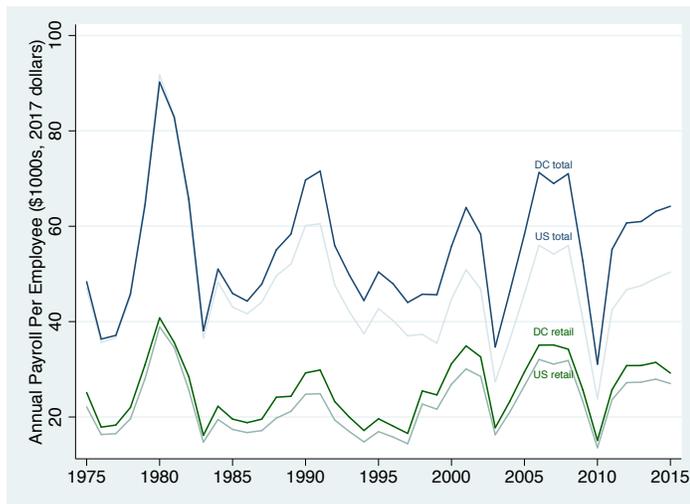


Figure 1: Retail Payroll per Employee Holds Steady After Rise of E-commerce

[Source: County Business Patterns, 1975-2015, US Census Bureau.]



Figure 2: Retail Share of Employment

[Source: County Business Patterns, 1975-2015, US Census Bureau.]

An alternative way to measure the strength of the retail sector is to consider its share of total employment. Figure 2 shows that since 1975, retail's share of employment for the entire US has been on the rise, from roughly 6 percent of employees to around 10 percent today. In contrast, the DC area started out with a much higher share of employees in retail employment, but by 2015 the DC area has about 10 percent less of its workforce dedicated to retail than the country as a whole.

Finally, we know that the composition of retail expenditure has changed since the early 2000s, with consumers spending a greater share of their income eating out (formally "food away from home").¹³ This trend is not leveling out: according to the Bureau of Labor Statistics,¹⁴ consumption of food away from home increased by 4.9 percent between 2015 and 2016. In 2016, those in the DC area spent more than the average American on food away from home: 47 percent of DC-area residents' spending on food was away from home, relative to 43 percent nationally.¹⁵

The Rise of E-commerce: Impacts in the DC Region

The DC area also faces some of these national challenges to retail, though the challenges tend to be more muted. With its highly educated and stable workforce, the DC area felt the pain of the Great Recession less than most of the country. So while prominent DC area malls did close – such as Montgomery County’s White Flint mall and Prince George’s County’s Landover Mall¹⁶ – many local malls continue to thrive.

This is in spite of the fact that the national decline of anchors such as Sears, Circuit City, and JC Penney has left retail vacancies, some of which have been slow to fill.

While prominent DC-area malls, including White Flint and Prince George’s County’s Landover Mall, did close, many local malls continue to thrive. This strength continues despite the national decline of anchors such as Sears, Circuit City, and JC Penney, all of which have left vacancies that have sometimes been slow to fill.

Indeed, the District has 212 retail development projects in the pipeline, and over a million square feet are projected to be completed in the near term.¹⁷

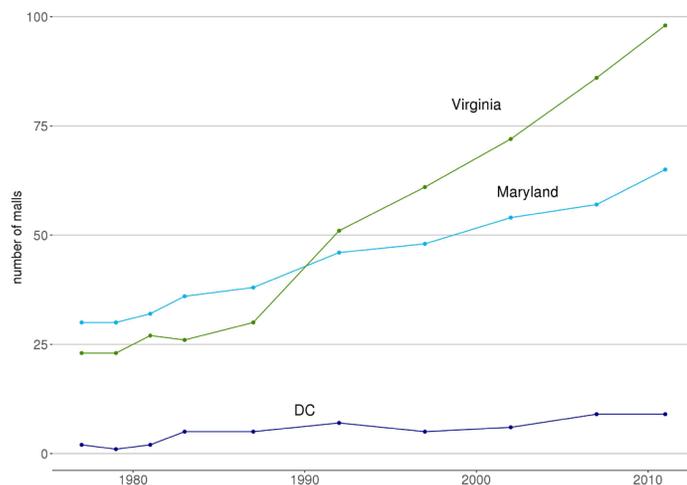


Figure 3: Number of Malls in DC, Maryland and Virginia Continues to Grow

[Source: Directory of Major Malls, selected years, 1977-2011.]

It is therefore no surprise that our newly collected data¹⁸ do not show an overall decline in the number of malls and shopping centers in the DC area.¹⁹ Figure 3 demonstrates that the total number of malls and shopping centers in the DC area has been growing since the late 1970s and that the trend continues either upward – in the Maryland and Virginia suburbs – or flat, as in the District.

However, the average mall or shopping center has been getting somewhat smaller over time, as shown in Figure 4, which reports average shopping center size over time. This trend holds for Virginia, Maryland and DC – but it is a trend that pre-dates the rise of e-commerce. Furthermore, we see no decrease in the average size of shopping centers after the mid-1990s, with the rise of e-commerce.

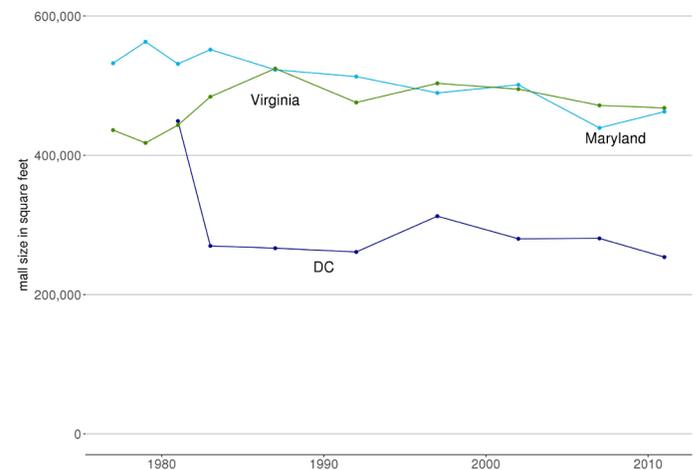


Figure 4: The Average Size of Malls is Declining Over Time

[Source: Directory of Major Malls, selected years, 1977-2011.]

The mall and shopping center data do document one clear change in these shopping areas over time: the mix of anchor tenants. Figure 5 shows the top five anchor tenants (in square footage terms) by year from 1977 to 2011.

While Giant food stores are always among the top five anchor tenants, the remaining members have seen striking changes. Local department stores, such as Hecht’s and Woodward and Lothrop, are gone entirely by 2007. Other traditional department stores, such as JCPenney and Sears, disappear as anchors by 2007. In 2011 – the most recent year for which we have data – Target, Marshalls and Macy’s

are the biggest non-grocery anchors. In addition, “Vacant” has a spot in the top five, surely not a good sign for the health of malls. by 2007. Other traditional department stores, such as JCPenney and Sears, disappear as anchors by 2007. In 2011 – the most recent year for which we have data – Target, Marshalls and Macy’s are the biggest non-grocery anchors. In addition, “Vacant” has a spot in the top five, surely not a good sign for the health of malls.

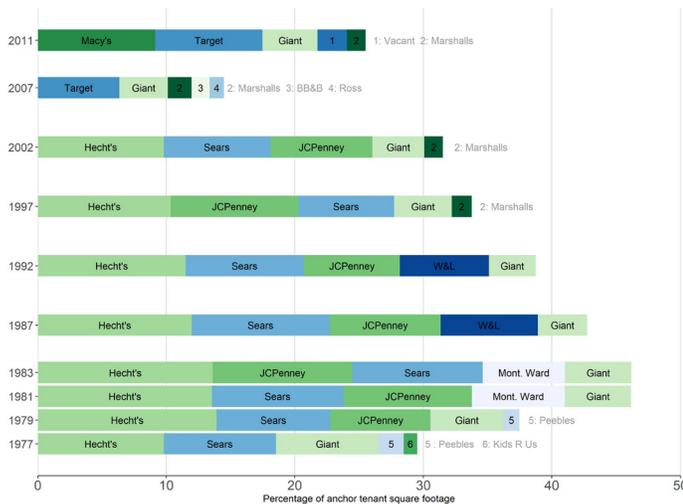


Figure 5: Top Five Anchor Tenants by Square Footage, 1977 to 2011

[Source: Directory of Major Malls, selected years, 1977-2011.]

This weakness in traditional shopping center developments have yielded new developments of quite different characters. Recent DC-area retail developments have been dedicated most of their retail square footage to food, and include a urban or quasi-urban walkable structure. In 2016, the former Hecht warehouse on New York Avenue in Ivy City opened its doors to 300 apartments and over 100,000 square feet of retail.²⁰ Hecht’s was once a major anchor D.C.-area malls and its redevelopment speaks clearly to the changing times. The new City Center development near the Washington Convention Center is a mixture of ground-floor luxury retail and eateries topped by several stories of apartments and million-dollar-plus condos, featuring local restaurateurs such as Ted’s Bulletin or Dolcetta alongside national brands.²¹

This pattern is certainly not limited to the city proper. The new Town Square development in Suitland, Maryland is metro-adjacent and includes both residential and commercial spaces. Maryland’s Pike and Rose and Virginia’s

Mosaic District both follow a similar patterns, with heavy emphasis on food retail.

Finally, the change in retail also requires non-retail land: e-commerce giants demand space for storage and last-mile logistics. In the first quarter of 2018, MRP Realty posted a 1.1 million square-foot Fairfax County portfolio on the market.²² Market participants suggest that such sites are continually increasing in price, as they are indispensable to the growth of e-commerce. As a result we expect to see innovation in last-mile logistics, including hybrids between big box stores and e-commerce distribution centers.²³

Policy Implications

Because e-commerce’s challenges vary by region and income, no national policy would adequately address its challenges to the traditional retail sector. However, targeted strategies may be useful to a given region or industry. Without endorsement, we list below potential policy actions to mitigate the pain of the transition to e-commerce.

- To help in-person stores compete, increase taxes on online sales above that of brick-and-mortar retail. While this may benefit brick-and-mortar stores, it comes at a substantial cost to consumers, who benefit from e-commerce.
- To help in-person stores compete, subsidize online businesses that partner with in-person retail stores. While this policy may work as a safety net for both online and retail stores, it benefits some stores more than others and poses challenges in deciding an optimal subsidy.
- To help commercial neighborhoods, particularly in declining areas, temporarily lower taxes on commercial structures, encouraging retailers to stay in business and draw newcomers. While this could save some in-person jobs, policymakers would have to choose which retailers to subsidize and keep in mind that the land could be repurposed for alternative efficient uses.
- To help commercial neighborhoods, allow for land use regulations that encourage the kind of successful retail development seen elsewhere in the world. For example, Hong Kong’s successful urban malls are nestled in a high-density, mixed-use community, surrounded by apartments, libraries and offices.²⁴

FOOTNOTES

- 1 We are appreciative to Ilham Dehry and Hajar Mahmoud for help with data collection.
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