RETAIL BREW

Class A malls outperform other formats

While many malls are struggling, a certain class of high-performing mall is emerging as a bright spot in the current retail landscape.

You may have heard American malls are dying, but earlier this month, $290 million changed hands for the purchase of the Crabtree Mall in Raleigh, North Carolina.

Real estate investment trust Macerich purchased the 1.3 million square-foot mall with plans to implement a $60 million strategic investment plan that would “create a more inviting and refreshed ambiance and reinforce Crabtree’s longstanding reputation within the community,” Macerich CEO Jack Hsieh said in a statement.

That’s a lot of money for a shopping format that is regularly declared dead or dying. Then again, Crabtree isn’t just any old mall. It’s a Class A mall—a category that some in the industry see as a bright spot in the current retail landscape.

“Class A malls have emerged as one of the highest-performing retail formats over the past year, with high occupancy and growing sales, and are positioned for continued success through 2025 and beyond,” a recent report from real estate advisory firm Newmark concluded.

The report explained that “while the broader mall format has fallen out of favor,” a lack of new development has bolstered the appeal of existing malls to retailers, with the result that asking rents are rising and available space is shrinking.

Top of the class: What makes a mall “Class A?” There are various technical definitions, usually based on the amount of sales generated per square foot, but also qualitative measures such as tenant mix, location desirability, and physical condition and amenities.

In the case of Crabtree, it’s hovering around an A-minus, Rick Strauss, principal at Odyssey Retail Advisors, who visited the site on behalf of another potential buyer, told Retail Brew.

There is some range in how these grades are defined, however. Per Newmark’s metrics, an A-minus mall pulls in an average of $635 per square foot, while an A-plus-plus mall pulls in more than double that on average at $1,515 per square foot. By that measure, Crabtree falls between the two at $951 in sales per square foot.

Strauss said Crabtree is an example of a mall with a strong location and a good mix of food and beverage and relevant brands, but which faces stiff competition from nearby shopping centers with a stronger mix of tenants.

“I won’t mention names…but there’s another mall that has better merchandising,” he said. “It’s got more current tenants that are successful right now, and [Crabtree] has lost market share to that mall.”

Getting the right mix: In mall operator parlance, “merchandising” basically means tenant mix, and according to Strauss, it’s the key to a mall’s success.

If too many of your tenants are brands that are slipping into irrelevance, he explained, your mix will start underproducing overall. The goal is to have a good balance of fashion, accessories, food and beverage, some entertainment options, and ideally an upscale anchor store.

In addition to the tenant mix, the physical appearance of Class A malls is also key. This appears to be a focus of Macerich in its plans to upgrade the Crabtree Mall.

Strauss agrees this kind of investment is needed.

“Crabtree is an example of a mall that can be merchandised to a greater success, but it also needs some capex to be spent on the mall to upgrade and refinish common areas so that it becomes more appealing to those brands that want to be there,” he said.