

## Shopping Center Classifications: Challenges and Opportunities

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### Introduction

#### Background

Over the years, shopping center formats have taken on a confusing array of identities, with names that include such descriptors as Centers, Commons, Crossings, Hybrids, Lifestyle Centers, Malls, Markets, Marts, Mega-Malls, Mixed-Use, Outlets, Parkways, Places, Plazas, Promenades, Shops, Strips, Squares, Super Centers, Town Centers, Urban Retail, Vertical, and Villages. Unfortunately, there is no agreement as to how many distinct types of shopping center formats there really are, or how individual centers should be assigned to the various categories. Adding to this confusion is that shopping centers can be further differentiated by a variety of marketing and management strategies including: Convenience, Entertainment, Ethnicity, Festival, Lifestyle, Luxury, Off-Price, Theme (e.g., home improvement and furniture), Tourist, Urban, and Value. When considering the possible combinations of these types of differentiating factors, it is understandable that some consider the retail sector inherently complex and difficult to understand.

To address this situation and help provide some insight into the major components of the retail market, the ICSC has developed a classification of shopping center formats. This typology has undergone a number of modifications over the years, as new formats have emerged and variations of existing formats have become more significant. The ICSC has also responded to calls for more precision from industry participants and capital providers who are seeking a better understanding of the structure of the market.

The nature and scope of retail continues to morph over time, especially as the lines have begun to blur among categories and as retail has become more intertwined with other property types (e.g., Mixed-Use and Town Center). This fusion suggests that the ICSC should revisit its current definitions. Indeed, given the importance of understanding the retail fundamentals and market forces that affect retail, it is imperative that the ICSC take the lead in helping develop a new typology that contains development formats that have significant retail components. To that end, the purpose of this article is to provide a frame of reference that can be used to guide the reassessment of current shopping center classifications.

#### Organization

To provide a frame of reference for revisiting shopping center classifications, several items should be addressed. For instance, to develop some perspective on current issues, it is necessary to explore the evolution of shopping centers and shopping center classifications. It is also important to step back and scope out how the classifications could be used to ensure that new classifications add to a greater understanding of the retail sector. If this is not addressed, a new classification system would likely add to the perceived complexity of the retail sector. To add more rigor to the process and increase the likelihood of industry acceptance, some basic “rules of definitions” or “classification rules” are discussed here to ensure that the resulting typology of shopping center formats satisfies basic tests of logic. To determine the importance of undertaking a revision of shopping center classifications, this discussion reviews how the current typology is being applied by various industry participants and observers. This discussion then explores several explanations of the importance of developing a new classification system, and concludes with a multistage program that can be used to develop, promote and ensure adoption of an enhanced classification of shopping centers.

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## **Role of Shopping Center Classifications**

### **The Role of Property Type and Sub-Types**

On the surface, it might appear that the push toward more precise classifications is unique to the retail sector. The reality is that the desire for more precision reaches across property types as developers, operators, and investors try to add more clarity to the composition and quality of their underlying properties.<sup>1</sup> When these property types, sub-types, and individual classifications are put together, the possible combinations and permutations are infinite. Rather than adding precision, clarity, and transparency, the proliferation of retail and other property type classifications can merely confound the market by adding unwarranted mystique to real estate holdings. Since there are no governing bodies that have developed industry-wide classifications across property types, classification risks are especially real. The end result is that market participants are left to pick and choose the classifications that are applied in a particular application.

The ambiguity surrounding retail formats has far-reaching impacts, affecting both Main Street and Wall Street. On the Main Street side, efficient operation of the retail market depends on the fact that real estate developers, tenants, planners and other facilitators understand the underlying business models and drivers of value for the various types of retail. On the Wall Street side, investors and capital markets must be able to apply performance measurements and benchmarks to various types of retail to understand relative risk/return and price these investments. In addition, commercial vendors and trade associations depend on valid, reliable and credible classifications of retail properties to support their activities in data collection, research and education, particularly for the research firms and data purveyors who track occupancy, rents, absorption, and other measures of market fundamentals. These concerns also extend to the National Council of Investment Fiduciaries (NCREIF), the major source of property type and sub-type investment performance for institutional real estate, including retail properties. Since these measures vary by retail sub-types, standard definitions and classifications that are embraced by the market are critical to the collection, analysis and dissemination of meaningful measures of disaggregated performance.

Overall, however, it is imperative that the market be offered tools that can allow non-retail specialists and other affected parties to approach the retail sector with a greater understanding of its underlying structure. This enhancement can allow non-retail specialists to approach the sector at a more disaggregated level rather than oversimplifying the approach and treating retail real estate as a fungible product and a homogenous commodity.

It should be noted that in the development of a valid and reliable shopping center classification system, there will always be a dynamic tension between over- and under-classification. These questions could

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<sup>1</sup> For example, office properties can be classified into the CBD/Suburban dichotomy, which can be further subdivided along lines dealing with quality (e.g., Class A, Class B, and Class C), and intensity of development (e.g., low rise, mid-rise, and high-rise). Similarly, the industrial sector has sought to move beyond the traditional two major classes of holdings (e.g., manufacturing and warehouse), by adding more precision by characterizing manufacturing (e.g., light, medium, and heavy), and warehouse (e.g., bulk distribution, high-tech, and refrigerated), as well as differentiating by location (e.g., free-standing, industrial park, and airport). Indeed, in a recent publication of the Urban Land Institute, industrial properties were subdivided into nine categories, each with their own unique sets of market drivers, critical success factors, and risk/return profiles. The apartment and hotel sectors have experienced the same “advances,” as specialists seek to increase the market’s understanding of the fundamental differences in real estate holdings that can otherwise be masked by more general classification schemata.

be addressed through statistical tests of significance, but attention should also be paid to challenges associated with applying the ultimate classification system. This will require trade-offs between the level of precision, the availability of data, and the concern for confidentiality in the highly competitive, capital intensive real estate market. The ultimate typology should also address the challenges that will be associated with the task of accurately assigning retail properties to the various sub-categories. Finally, efforts should be made to ensure the market embraces the resulting typology of centers, and to the extent possible, the best practices and reporting requirements that are mandated by their use. If the required investment in tracking and reporting cannot be accomplished, it is doubtful if the addition of new retail categories, and the modification of existing ones, will help advance the state of the industry. Indeed, without widespread adoption, additional categories might merely add to the confusion and create greater informational inefficiencies in the market.

### Uses of Shopping Center Classifications

It is useful to explore how the classifications are used in the market to provide a foundation that can be used to determine if the current shopping center classifications should be expanded, modified, or enhanced. In general, sub-classification of shopping centers can be applied at several levels of aggregation. At the macro level, proper classification of retail properties can provide a snapshot of the current marketplace, or help monitor trends that are shifting market share within the broader market. When coupled with performance data, structural analyses can provide some insights into the risk-return profile of the typical or average retail property at a more disaggregated level than provided by the overall sector. While such analyses will lack some precision, they can provide central tendencies of the market that can be used in valuing retail investments, or as a benchmark for analyzing an individual opportunity.

In addition, insight into the structure of the overall retail market, together with performance measures for the various strata, can be used in structuring portfolios.<sup>2</sup> The application of more precise shopping center classifications and the tracking of market share data over time, can also be used to identify emerging trends and flag new retail innovations. This kind of analysis can allow investors, developers, and tenants to understand changes in demand and supply that may affect the investment performance of existing assets. It can also provide insights into the changing composition of competitive offerings, which will help identify properties in danger of functional obsolescence or market erosion. When combined with performance measures, this information can be used to value current offerings or price potential acquisitions in a more proactive manner. The bottom line is that greater market knowledge and insight can lead to the application of more proactive investment and management strategies. However, if a new typology of centers is unwieldy or cannot be translated to market knowledge, these efforts to enhance classifications can backfire. The end result could be a situation in which the resulting complexity overwhelms the market, confounding market participants and leading to inappropriate allocations from the capital markets to the overall retail sector.

## Rules of Classification for Shopping Centers

### Overview

Before exploring the need to revise ICSC shopping center classifications, it is useful to step back and focus on some basic rules of classification or evaluative criteria that can guide such deliberations.

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<sup>2</sup> This application can take the form of a market basket approach in which one attempts to mirror the market. Alternatively, it can be approached through an extension of Modern Portfolio Theory or other forms of optimization analysis in which an analyst uses historical performance at the disaggregate sub-sector level to configure portfolio strategies that provide certain risk-return profiles.

Three major requirements must be addressed in a shopping center classification system: it must be unambiguous, it must be meaningful, and it must be capable of being measured. If these criteria cannot be satisfied in the short term, some form of interim or transition program should be developed that can help move the classifications toward eventual market adoption while addressing these issues.<sup>3</sup>

### Unambiguous

One of the key criteria that must be satisfied by a classification of shopping centers is that the correct assignment of individual properties must be unambiguous and enduring. Assignment to various categories cannot be arbitrary, but must follow some systematic process that can be applied in an objective, and dispassionate manner. This element can be broken into three related dimensions:

- **Valid.** The classification category and the underlying methodology must be clear and distinctive. That is, if “Lifestyle Centers” are isolated as a distinct category, then the classification must capture the essence of these properties, and not enfold another center type which aspires to such status to appear more attractive to the market.
- **Reliable.** The typology must have stability and consistency that endures over time. This criterion is important considering the longitudinal use of classification systems to code individual properties and develop accurate and reliable aggregate performance measures. Classifications should also hold over a significant portion of the property life cycle.
- **Enduring.** In a competitive retail environment, developers, investors, and retailers are continuously pushing the envelope with new innovations to capture a competitive advantage. Since many of these “innovations” will not catch on, the decision to elevate them to the level of distinct categories should depend on their longevity or staying power rather than fleeting popular opinion.

### Meaningful

In addition to the attributes related to the clarity of a particular class of retail formats, the ICSC should take efforts to ensure that the ultimate classification satisfies tests associated with being “meaningful.” While the related question of “to whom” it should be meaningful should be debated (i.e., ICSC core members vs. broader constituencies), this dimension offers some objective measures that warrant consideration. This requirement can be subdivided into three components.

- **Significantly Different.** The differentiating criteria must be significant and material for a class to be treated differently. The centers that are assigned to any particular class must have a degree of homogeneity or similarity with other members of the same class, and must be meaningfully different from properties in other classes.
- **Sufficient Number.** To justify treatment as a distinct sub-category, there must be enough candidate properties to warrant separate treatment. This criterion must be carefully applied in the case of emerging trends, where new classes of retail formats are likely to emerge over a reasonable period of time.
- **Worthwhile.** To warrant treatment as a distinct shopping center class, the market must have the potential to capture some pay-off or ancillary benefits to justify the effort to create and track a new category of shopping centers.

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<sup>3</sup> For example, the ICSC could begin modifying its internal systems to track new or modified subclasses of retail and report the results in its own publications and industry benchmarks. Similarly, the ICSC could develop educational and outreach programs to sensitize the market to the benefits of embracing such a typology. Individual member firms and interested parties could also begin to demand more precision in reporting from vendors, using the private sector and market share to drive innovation and expansion.

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## Measurable

While one could turn to the old adage, “if it walks like a duck, quacks like a duck...” in classifying retail formats, each formal classification must be measurable in three regards to hold up to scrutiny and make a contribution to the industry.

- **Quantifiable.** The relevant characteristics of individual properties or projects that make up a category must be capable of being identified, qualified, and quantified in some way.
- **Accessible.** The data required to classify given properties into a particular category must be available, preferably in a public, objective, and verifiable manner.
- **Market Acceptable.** The individual classes and overall typology must be palatable to key players in the market to ensure industry acceptance. Without sufficient buy-in, the development of new classes of retail that do not supplant other classifications will merely add to confusion and thwart efforts to increase understanding and market transparency. Thus, it is imperative that current industry leaders and market participants (e.g., investors, rating agencies, trade associations, and companies) embrace the new classification.<sup>4</sup>

## Evolution of Shopping Center Classifications

There have been three major waves of shopping centers that have triggered new retail classifications. During the first wave, shopping centers were classified into several basic categories, including *Community Centers*, *Neighborhood Centers*, and *Strip Centers*. These shopping center formats were distinct from *Free-standing Retail* and *Urban Retail* in several regards, especially with respect to integrated design and unified storefronts, provision of on-site parking, strategic blending of tenants, emphasis on convenience and basic goods, and coordinated management. Early shopping centers also tended to be fairly uniform, designed to satisfy more of the mass merchandise demands while offering the convenience of one-stop shopping. In the second wave, which began with Southdale Mall in Minneapolis, the age of *Regional Malls* was born. This wave took the form of a shift from urban to suburban shopping, spawning a spate of new malls. The major distinguishing elements of malls over shopping centers was the fact that most were enclosed centers with a common corridor connecting tenants, and sheer increases in the aggregate size and number of tenants, both anchor and in-line tenants.<sup>5</sup> The third wave was a period of product differentiation in which the two core categories were further subdivided. For example, with the emergence of “Category Killers,” the Shopping Center category spawned a new genre of centers known as *Power Centers*.<sup>6</sup> Similarly, *Super-Regional Malls* became dwarfed by even larger formats known as *Mega-Malls*, including the West Edmonton Mall and the Mall of America. During this period, the market also began recognizing various positioning strategies, which emerged as developers and operators sought to differentiate their properties and firm up their market niches (e.g., Entertainment, Festival, Lifestyle, Mixed-Use, Open-Air, Premium, and Tourist).

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<sup>4</sup> This market acceptance is especially true from an industry perspective, where implementation of new categories will require significant resource commitments and market pressure to ensure successful implementation.

<sup>5</sup> Over time, further increases in the size and number of tenants created the need to further differentiate malls, resulting in the addition of Super-Regional Malls to the lexicon. In some circles, rather than differentiating among types of formats, retail properties were simply referred to as Shopping Centers, which referred to smaller format centers, and Regional Malls, which referred to larger format centers.

<sup>6</sup> Another example was the introduction of Outlet Centers, which were positioned somewhere between traditional shopping centers and regional malls. Although large enough in sheer square footage and the number of tenants and trade area draw to be considered Regional Malls, Outlet Centers lacked the presence of department store anchors, and thus were not enfolded into that category. At the same time, Outlet Centers were too large to be included with Community Centers and Power Centers, thus leading to another classification.

### Current ICSC Shopping Center Classifications

The current ICSC shopping center classifications consist of two major categories: *Malls* and *Open-Air Centers*, each of which are divided into sub-categories. Within these broad categories, the sub-classifications hinge on several key attributes, which include:

- **Concept.** This descriptor refers to the underlying business strategy or model that distinguishes the REIT or helps characterize its overall operations. The defined “concept” captures the theme or market positioning offered by centers within the broader categories, including such characteristics as convenience, customer-orientation, entertainment, merchandise lines, and price points.
- **Size.** This attribute provides an indication of the massing of the center, including both anchor tenants and other tenants.
- **Acresage.** This refers to the typical land assemblage required to house the retail space, along with parking and ancillary services necessary to the operation of the respective types of centers.
- **Typical Anchors.** This attribute provides a profile of the type, size and business orientation of the major anchor tenants that are typically housed in the particular type of centers.
- **Anchor Ratios.** This measure provides an indication of the mix of anchor and non-anchor tenants, including in-line retail tenants.
- **Primary Trade Areas.** This element indicates the typical size of the Primary Trade Area from which the respective centers draw the bulk (i.e., 60%-80%) of their customer sales.

**Table I: Summary of ICSC Shopping Center Classifications**

Type	Sub-type	Concept	Size Range
<b>Malls</b>			
	Regional Center	General merchandise, fashion	400-800,000
	Super Regional Center	Same as regional; more variety & assortment	Over 800,000
<b>Open-air Centers</b>			
	Neighborhood Center	Convenience	30-150,000
	Community Center	General merchandise; convenience	100-350,000
	Lifestyle Center	Upscale; national specialty; entertainment, outdoor	150-500,000
	Power Center	Category-dominant anchors, few small tenants	250-600,000
	Theme/Festival Center	Leisure; tourist-oriented; retail & service	80-250,000
	Outlet Center	Manufacturer’s Outlet stores	50-400,000

Sources: Runstad Center, ICSC

Table I presents the core concepts and size ranges of the eight sub-types of retail in the current ICSC classification system. As noted, there are some overlaps in the various attributes across several retail classes. To provide more insight into proper classification, the ICSC has added a number of other distinguishing characteristics (e.g., number of tenants and primary trade areas) as noted in Addendum I. While this might suggest that the current classifications are not unambiguous, the classification of a center to a particular category requires the simultaneous consideration of attributes rather than looking at them individually or sequentially. For example, a number of types of centers have added entertainment and lifestyle-type attributes to create more attractive shopping experiences for customers, thus increasing drawing power or market penetration. Thus, the proper classification of a center is somewhat subjective, as it is based in part on the image that the center conveys.

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## Applications of Retail Classifications

### Overview

As suggested by the evaluative criteria, the development of a new typology of centers, or reaffirmation of the existing classification system, should be based in part on expected market acceptance. Before addressing the need for a new typology of shopping centers, or enhancements/expansions of the existing classification, it is useful to explore how widely the current classifications have been embraced by the broader market. There are two major trade associations that track property type performance: the National Council of Real Estate Investment Fiduciaries (NCREIF), and the National Association of Real Estate Investment Trusts (NAREIT). The use of retail classifications in these two organizations, which represent the private and public side of institutional investment, provides a strong indication of the degree to which ICSC classifications have been institutionalized. It is interesting to explore the acceptance of the typology by other capital market players, appraisers, and planners, as well as the reliance of ICSC and other data vendors on the ICSC classification system.

### NCREIF

In the mid-1970s, the real estate divisions of major life insurance companies and other interested parties launched an industry-wide effort to create a national real estate index.<sup>7</sup> The founders of the National Council of Real Estate Investment Fiduciaries (NCREIF) recognized that analysts and portfolio managers needed performance measures to model how real estate would fit in institutional portfolios. To that end, they created the NCREIF Index, which consisted of pooled performance data for institutional real estate held in the tax-exempt accounts that they managed. The NCREIF Index quickly became the official index, supplanting earlier indices that did not provide meaningful measures of real estate performance. To add precision, the NCREIF Index was reported at an overall level and for four major property types: office, industrial, retail and hotel. As the number of properties increased over time, the property sectors were divided further, with retail broken down into subtypes such as regional malls, community centers, and neighborhood centers. This subdivision was important as it allowed analysts to model various combinations of retail holdings in order, and to add more precision to real estate portfolio strategies.

### Real Estate Investment Standards

In 1993, the National Association of Real Estate Investment Managers (NAREIM), the National Council of Real Estate Investment Fiduciaries (NCREIF), and the Pension Real Estate Association (PREA) undertook an industry-wide project to create information standards for the institutional real estate industry.<sup>8</sup> These standards, known as the Real Estate Information Standards (REIS), were designed to provide greater consistency in professional practices in the areas of valuation, accounting, performance measurement, and reporting. As a part of continuing efforts towards refinement, the REIS initiative turned to the ICSC for classifications of shopping centers, recognizing the organization had the best insights into the structure of the retail sector. At the current time, the REIS classifications for retail properties reported in the NCREIF Data Collection and Reporting Procedures Manual are

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<sup>7</sup> This initiative came on the heels of revisions to the fiduciary standards that guided institutional investments, which raised the standard from that of a “prudent man” to a “prudent expert.” The end result was that fiduciaries could not attempt to manage risk by avoidance, but were required instead to diversify portfolios across asset classes, including real estate.

<sup>8</sup> The underlying principles guiding this standards-setting approach include disclosure of reliable information which is relevant to investor decision making processes and adequate description of policies and practices to facilitate analysis. We believe that such an approach will contribute to furthering the understanding of real estate as an asset class and its place in a broader capital markets universe.

relatively consistent with ICSC classifications. However, it should be noted that several elements have been deleted, which include acreage, the types of anchors, anchor ratio, and typical trade area.

It should be noted that adherence to these classifications is mandatory for data reporting to NCREIF.<sup>9</sup> To avoid too many “non-conforming” properties, there is an implicit pressure to designate new retail categories. This pressure, in the absence of some of the more subjective elements that are used to distinguish ICSC classifications, raises some questions as to the accuracy of these individual classifications. There is a possibility that individual properties are misclassified due to the inherent complexity of the task. The potential error rate in classification will depend in part on how well individual data providers are educated as to the subtleties of retail, and who determines the appropriate classification (i.e., retail asset manager, portfolio manager, portfolio accountant or property manager). Since quarterly updates tend to focus on financial data that are used to calculate various performance measures, it is unlikely that a retail classification is changed once it has been assigned.

Table II presents a summary of retail categories reported in the NCREIF Index as of mid-2005. As noted, the categories have different starting dates. NCREIF also does not provide performance data for three retail categories isolated in its data dictionary: Outlet Centers, Theme/Festival Centers, and Single Tenant facilities. This omission is related to the concern for confidentiality and the fact the respective series do not meet minimum requirements (i.e., four or more properties or two or more managers) for long enough to ensure that individual centers are adequately masked. Similarly, the failure to report performance for “Unknown” center types hints at the success the organization has had in “encouraging” data providers to classify centers, even though it does not speak to the validity of those classifications. Indeed, the recent explosion in “types” of formats would argue that some properties are being misclassified (e.g., Lifestyle and Mixed-Use).

**Table II: Profile of Centers by Type in NCREIF Retail Index**

Type of Retail	Yr. Index Started	Value (\$millions)		Number of Properties	
		Total	Share	Total	Share
Super-regional	1983	\$13,292	36.0%	35	5.7%
Regional	1981	\$9,012	24.4%	53	8.6%
Community	1978	\$7,441	20.2%	209	33.8%
Neighborhood	1978	\$4,464	12.1%	271	43.9%
Power	1994	\$1,403	3.8%	30	4.9%
Fashion	1997	\$1,277	3.5%	20	3.2%
Unreported		\$370		36	
Total Reported		\$36,889	100.0%	618	100.0%
Total Retail	1978	\$37,259		654	

Sources: Runstad Center, NCREIF

To point out the importance of proper classification of retail properties, it is useful to explore investment performance of the various categories. As noted in Table III, through mid-2005, the returns and return/risk profiles have varied dramatically by retail category. On the surface, Power Centers

<sup>9</sup> That is, to add discipline and precision to the process, data entry requires use of pull-down menus and bulk data submissions are scrubbed against the identified classes of retail. In essence, all individual retail properties must be assigned to one of the retail categories. In some respects, the fact that this designation is mandatory helps ensure that all retail properties are classified into the respective sub-categories. In the event a property sub-type does not occur on the list, the user is instructed to code it as Other (XO). This classification refers to any other property type not specified in the property type list.

would seem to have the most appeal, with the highest average annual returns and the highest return/risk ratio. However, it should be noted that: 1) the return series for Power Centers began in 1994, 16 years after inception of the NCREIF Index, and 2) there are only 30 Power Centers in the current index calculations and only 18 on average over the calculation period. There also are currently only 6 Super Regional and 19 Regional Malls (11 and 15 on average from inception, respectively), which could affect the results in these categories.

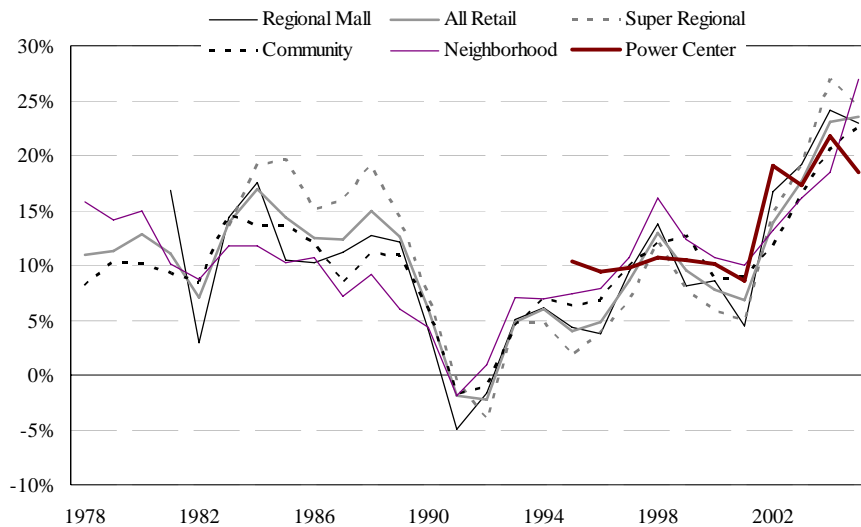
**Table III: Total Returns by Center Type in NCREIF Retail Index**

Type of Retail	Total Annual Returns		
	Avg	StDev	Return/Risk
Super-regional	11.18%	8.12%	1.4
Regional	10.10%	7.18%	1.4
Community	10.08%	5.19%	1.9
Neighborhood	10.63%	5.55%	1.9
Power	13.27%	4.81%	2.8
Fashion	9.88%	5.96%	1.7
Total Retail	10.56%	6.08%	1.7

Sources: Runstad Center, NCREIF

Illustration I provides the respective return series in a more graphical format. As noted, retail returns tent to follow a similar path in terms of market cycles, although the NCREIF categories exhibit different volatility.

**Illustration I: Retail Performance by Sub-type**



Sources: Runstad Center, NCREIF

**NAREIT**

The National Association of Real Estate Investment Trusts (NAREIT) also classifies REITs according to property type and sub-types. As of September 1, 2005, the retail REITs accounted for some 25% of all REITs in terms of market capitalization, of which 12.4% were Regional Mall REITs, 10.6% were

Shopping Center REITs, and 1.9%, were Free Standing REITs. The breakdown of retail REITs includes:

**Table IV: Market Share of Retail REITs**

Retail Subtype	Number of REITs	Market Cap
Shopping Center	18	\$35,483
Regional Mall	9	\$41,847
Free Standing	6	\$ 6,206

Within individual REITs, the classification of properties is up to the reporting companies, with members typically adhering to ICSC classifications. To help position themselves, however, retail REITs may provide a summary of retail holdings using a variety of labels not included in the ICSC typology.

To explore the adoption of ICSC classifications, the individual retail holdings of the top REITs were analyzed.<sup>10</sup> As noted in Table V, about 38% of individual REIT holdings are broken down into the major ICSC classes. Additionally, 58% are either classified, or are described with a generic label that includes “Shopping Center” or “Mall”, either individually or in combination with other general terms.<sup>11</sup> The more recent additions to ICSC categories and those for which some argue should be isolated (e.g., Lifestyle, Mixed-Use, Specialty, and Street) account for only 4% of the REIT holdings recorded here.

**Table V: Retail REIT Holdings by Retail Type**

Retail Type	Number	Total	Share of Type	Share of All
Super-Regional	108		7%	3%
Regional	257		18%	7%
Community	568		39%	15%
Neighborhood	400		28%	10%
Power	71		5%	2%
Outlet	38		3%	1%
Subtotal		1,442	100%	38%
Shopping-Center-Mall *	2,029		92%	53%
Unclassified	182		8%	5%
Subtotal		2,211	100%	58%
Lifestyle	16		10%	0%
Mixed-use	17		11%	0%
Specialty	31		19%	1%
Street	29		18%	1%
Other	67		42%	2%
Subtotal		160	100%	4%
<b>All Retail</b>		<b>3,813</b>		<b>100%</b>

\* Includes 3 large REITs with no classification system

<sup>10</sup> Although not all REITs were included in the table, the analysis did cover the major retail-designated REITs with an aggregate market cap around \$80 billion, 3,625 individual retail properties, and some 1.1 billion square feet of retail holdings as of September 2005.

<sup>11</sup> The holdings of the subject REITs were typically assessed through the store listings that were found on their websites. Classifications were based on the definitions of the centers that were used in these listings. In some cases, this was represented in individual fields; in others, it was taken from the short descriptions. For several REITs, data regarding their portfolios was accessed through Storetrax.com, a lease listings website. In some cases, the corporate websites linked directly to the Storetrax website; in others, data was not available for the REIT holdings online, but listings were found in a search of listings.

Sources: Runstad Center, NAREIT

On the surface, these results could suggest that such innovations are not widely held by retail REITs, which may favor more traditional types of retail. However, the general absence of such products might be more attributable to the lack of adoption of ICSC terms as reflected in the relatively large percentage of holdings being generically classified and unclassified.

While the classification of REIT holdings in Table V might suggest fairly widespread adoption of ICSC classifications, there are a number of variations in how individual REITs describe their shopping centers. For example,

- **Regional Mall:** includes a number of variations including Regional Shopping Center, Regional Corridor, and Regional Community Center.
- **Power Centers:** also referred to as Power Community Centers and Power Retail Centers.
- **Lifestyle Centers:** includes Lifestyle Regional Malls
- **Mixed-use Centers:** includes MU Recreation, MU Office/Retail Complexes.
- **Shopping-Center-Mall:** generic category includes such labels as Centers, Enclosed Malls, Malls, Shopping Centers, Shopping Malls, and Associated Centers (note: in this application, holdings of REITs not identifying any classification included in this category).
- **Specialty Centers:** covers a range of special-purpose centers including Market Centers, Marketplaces, Festival, Promenade, Retail and Entertainment, and Town Centers.
- **Street Retail:** includes Downtown Retail and Street Front Retail.
- **Other Centers:** covers Freestanding, Convenience, Open-Air, Strip, Value, Hub, Multi-level Vertical, Multi-level Contemporary and Dominant Retail Centers.
- **Unclassified Centers:** covers centers without any descriptive labels in public listings although other holdings by REIT were designated; in essence, such properties were unique and did not appear to fit any established category.

### Other Institutional Players

A number of institutional players, market observers, and data providers outside of the major trade associations are also engaged in the classification and tracking of retail properties and sub-classifications. Such players range from commercial lenders who provide debt capital to the sector, to rating agencies and analysts who opine on the retail market.<sup>12</sup> Given the maturity and convergence of the capital and spatial markets, it would appear that interest in accurate and meaningful classifications of individual shopping center formats would be of paramount importance to the capital markets. This is particularly important in light of the inherent complexity of retail, and the influx of capital from sources with little appreciation of underlying real estate market fundamentals. That is not to state that such investors do not care about market fundamentals, but that they approach investing from a more strategic manner, relying on analyst reports and transparency to justify asset allocations. When the retail sector is not “understandable” or the risk/return cannot be quantified relative to other asset classes, the sector will be improperly weighted relative to other property sectors. Although the recent public and private capital flows to retail in both the debt and equity sectors would suggest that such concerns are moot, it

<sup>12</sup> Due to the dramatic growth in CMBS over the past decade and the quantitative approach to pricing various tranches, it would appear that proper classification of retail properties would be an industry prerequisite. However, it is likely that many market participants rely on the self-designation of individual holdings in terms of the underlying categories of REIT properties. At the same time, analysts and rating agencies have developed more sophisticated tenant tracking systems to allow them to efficiently and objectively monitor the exposure of an issuance to a particular retailer who may enter bankruptcy or suffer from some major financial shock.

should be noted that these allocations were based on a strong consumer market, as well as the disfavor into which other property types fell. Going forward, retail investments will have to become more transparent to retain momentum and compete for capital. While the extent to which reliance on ICSC classifications have rippled across the capital markets is beyond the scope of this commentary, attention should be paid to how revised classifications will be embraced by this critical element of the overall real estate market.

### **The Appraisal Institute**

A final perspective that should be explored relative to shopping center definitions is that of the appraisal profession. Given the importance of appraisals to the transaction market, proper recognition of the structure of the retail market and the different drivers of value is of critical importance to supporting capital flows into the industry. The approach of the appraisal profession to shopping centers is largely compatible with the ICSC classification, although there is no evidence that the definitions have been “institutionalized” in a best practice sense.<sup>13</sup> The Institute cites six criteria for classifying centers: 1) center size, 2) anchor tenants, 3) types of products sold, 4) site size, 5) distance and travel time, and 6) customer base. Additionally, they recognize the four major categories of centers: Neighborhood, Community, Regional and Super Regional. They also identify a number of specialty centers including: Festival Centers, Fashion Centers, Off-Price and Outlet Centers, Discount Shopping Centers, Power Centers, Hypermarkets and Warehouse clubs.

While these specialized retail labels fall into the ICSC categories (or could be fit into them), there is no evidence that this typology is used in the analysis and valuation of shopping centers. Indeed, in light of the complexity of the market and the relatively limited volume of transactions (especially in large format centers), it is more likely that appraisers struggle with identifying a sufficient number of comparable sales. Appraisers may be forced to synthetically mix different types of retail to arrive at sufficient evidence of value, broaden their geographic search, and/or go back further in time. Since appraisals are required by lenders, market-value accounts, and institutional accounts, any such deviations from current market indicators due to data limitations or classification problems may have far-reaching indirect impacts on the retail sector.

### **ICSC Utilization**

In the publication *Scope 2004*, the ICSC reports on the number of centers in the United States overall and by state. Interestingly, ICSC uses size in this publication as a classification criterion. As noted in Table VI, the number of centers in each of the six size groupings has increased over the past several years. These growth rates are interesting in terms of general trends, showing the overall deceleration of growth across most size categories. However, in terms of market structure they provide little insight into the changing concepts and formats emerging in the retail industry. It can be assumed that the use of size was based in part on the objective of the publication, which focused on the overall impact of the shopping center industry. It may also be related to data limitations relative to the assignment, tracking and reporting of ICSC retail designations for each of the shopping centers in the country.

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<sup>13</sup> For a more complete discussion, see: Vernor, James D. and Joseph Rabianski, Shopping Center Appraisal and Analysis, Appraisal Institute, 1993.

**Table VI: ICSC Scope of Shopping Center Industry Classification**

Number of Centers by Size/Yr.	Number of Centers by Type				Annual Growth Rate		
	2000	2001	2002	2003	2001	2002	2003
Less than 100,001 sq. ft.	28067	28472	28818	29230	1.4%	1.2%	1.4%
100,001 to 200,000 sq. ft.	10961	11102	11227	11338	1.3%	1.1%	1.0%
200,001 to 400,000 sq. ft.	3926	4033	4129	4227	2.7%	2.4%	2.4%
400,001 to 800,000 sq. ft.	1405	1449	1489	1522	3.1%	2.8%	2.2%
800,001 to 1,000,000 sq. ft.	247	247	251	254	0.0%	1.6%	1.2%
More than 1,000,000 sq. ft.	399	410	414	419	2.8%	1.0%	1.2%
Industry Totals	47005	47714	48330	48993	1.5%	1.3%	1.4%

Sources: Runstad Center; ICSC Scope 2004

**National Research Bureau (NRB)**

It is also useful to explore how private vendors approach shopping center classifications. The addendum presents the detailed classification system used by NRB, as extracted from its on-line glossary of centers. Table VII presents the NRB core size-based classification system. NRB has recognized that such a system may oversimplify the task, masking a number of subtleties associated with types of centers that fall within each category. To that end, it has developed a much more extensive classification of centers. These centers include such titles as: Airport Retail, Auto Malls, Community Centers, Discount Centers, Factory Outlet Centers, Festival/Entertainment Centers, Home Improvement Centers, Lifestyle Centers, Mixed-use Development, Neighborhood Center, Off Price Center, Power Center, Regional Center, Strip Center, Super Regional Center, Theme/Specialty Center, and Upscale/Fashion Center (see: Addendum for detailed definitions). Although its aggregate reports focus on the size-based categories, the more detailed breakdowns and tracking use the more precise classifications. For example, drawing on its database, NRB reports:

While the largest increase of new shopping center space from 2003 to 2004 was in the Lifestyle format (a 33% increase), more than 21% of the almost 80 million square feet of incremental shopping center space added in 2004 to the NRB Shopping Center database was power center square footage. That was the highest of any format.

Shopping Center Directions, Winter 2004

**Table VII: NRB 2003 Census**

Center Size in SF	Number	Total GLA in SF (Mil's)	Total Estimated Retail Sales (\$Billions)	Average GLA/Center	Average \$/SF
< 100,001	29,234	1445.6	\$388.5	49,448	\$268.74
100,001 to 200k	11,336	1569	\$340.1	138,420	\$216.74
200,001 to 400k	4,233	1147	\$204.8	271,019	\$178.54
400,001 to 800k	1,540	854	\$173.1	554,557	\$202.66
800,001 to 1 Mil.	334	300.9	\$85.2	900,952	\$283.09
> 1 Mil.	427	547.9	\$147.5	1,283,155	\$269.21
Total Centers	47,104	5864.4	\$1,339.2	124,507	\$228.34

Sources: Runstad Center, NRB Online

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## Importance of Shopping Center Classifications

### Overview

The development of an unambiguous, meaningful, and measurable classification of retail shopping center formats is critical to the mission of ICSC. There are a number of challenges that must be recognized in developing such a classification system, however. In the absence of mandatory classifications or widespread industry buy-in, it is not realistic to assume that ICSC can develop a classification system that will automatically become the industry standard. Leadership in the effort to enhance and institutionalize shopping center classifications can go a long way toward improving overall market efficiency. Once a basic typology has been created, ICSC can work with other associations and market participants to help ensure industry acceptance and buy-in. It should also be noted, however, that some players who have been able to trade on the inherent inefficiencies of the current system may not embrace such efforts.

### Capital Market Rationale

As suggested earlier, real estate and the capital markets have become closely aligned over the past decade. This convergence has been healthy for the real estate market and has provided access to greater capital flows than would have been possible in a more segregated market setting. Recently, the attraction of real estate relative to other asset classes has helped maintain values in spite of relatively weak market fundamentals of supply and demand. Indeed, the strength of capital flows to real estate has created an environment in which real estate prices have reached historical highs. The retail sector has fared better on this front as the consumer-led economy has translated to strong performance.

While creating a windfall for current owners, it is clear that this dramatic influx of capital is not sustainable over the long-term. Indeed, as the allocation of capital migrates back toward long-term averages, capital flows are likely to regress to more sustainable levels. During this correction, more pressure will be placed on understanding the relative risk-return of various sub-sector components in terms of market fundamentals rather than historical returns based on cyclical highs. In this environment, enhanced shopping center classifications and greater transparency for the sector will be critical to its ability to capture a fair share of capital flows relative to other property types. It is particularly important that a new classification system for shopping center formats address the needs of key capital market players (e.g., NCREIF, NAREIT) as well as appraisers, lenders, and investors. To that end, outreach efforts must include data providers and vendors such as NRB, as well as ICSC publications.

### Growth Management Rationale

The retail industry is facing a number of challenges and opportunities related to renewed efforts to manage growth and contain urban sprawl. Particularly challenging is the underlying argument for a fundamental shift toward non-auto dependent “urban retail” formats and away from more traditional shopping centers. While the development of “urban retail” solutions is an opportunity for the retail industry, if efforts to contain sprawl and create more compact cities are not tempered with an understanding of retail market fundamentals, the end result could have far-reaching consequences for the sector. In particular, the potential disruption created by well intended, but naïve policies and practices could create tremendous inefficiencies and skew development toward non-sustainable retail options. Increasing pressure to embrace such retail solutions could also make it even more difficult to develop traditional shopping center formats that have proven track records in their ability to satisfy consumer demand.<sup>14</sup>

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<sup>14</sup> On a related note, the pressures for change and the call for more “environmentally friendly” retail solutions could trigger a backlash that would create obstacles that constrain the ability of the industry respond to new

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The ultimate outcomes of the debates surrounding growth management are unknown. It is imperative, however, that these discussions move to a more objective level that is based on facts and an understanding of how the private market operates. Such a shift will help retailers and developers position themselves in more collaborative roles, rather than casting them as the enemy in efforts to solve urban challenges. To achieve this balance, it is important that the industry have the fundamental tools in place to help educate planners, regulators, interest groups, politicians, and the broader public as to the underlying “value proposition” that the retail industry provides. At the same time, it is important to indicate the key success factors or attributes that have made various retail formats successful, so that well-intended but potentially misguided policies are not put in place that will disrupt market balance or create suboptimal retail solutions. Approached with such considerations in mind, enhanced shopping center classifications can address such needs and help explain how the retail market operates and the role that it plays in satisfying consumer demand in a socially responsible, ethical, and pro-active manner.

### **American Planning Association**

Given the increasing importance of planning and growth management to the shopping center industry, it is useful to briefly discuss how planners approach the classification issue. The American Planning Association (APA) has developed the multidimensional Land-Based Classification Standards (LBCS) to provide a consistent model for classifying land uses (<http://www.planning.org/lbcs/>). This system is based on five attributes: activity, function, structure, site development character, and ownership. LBCS covers shopping centers under “Structure 2500: Malls, shopping centers, or collections of shops.” It defines shopping centers as a group of retail establishments that are situated and often managed as a single property. It recognizes that most shopping centers provide on-site parking, and their size and configuration reflect the kinds of merchandise and trade area characteristics. In terms of retail classification, LBCS notes the two basic structure types as malls and open-air strip centers. Although this division recognizes the importance of physical characteristics, the APA recognizes that for planning applications, knowing the type of trade area served by the shopping center is more useful than knowing the basic configuration. Land-use classification systems have used a variety of categories in the past. The basic classification system is divided into malls, shopping centers, and convenience stores with the type of merchandise/service offered as the primary distinguishing factor.

The APA recognizes the challenges inherent in developing a classification of shopping centers, which it attributes to a combination of diverse structure types, and the “competitive nature of retailing and constant search for innovative merchandising.” Indeed, the LBCS notes the shopping center industry is probably the most dynamic of all the property classes that planners must address. In general, planners fall back on the four basic shopping center formats: Neighborhood, Community, Regional, and Super Regional. They recognize the International Council of Shopping Centers expansion of the four basic categories to eight categories. However, in this more precise typology, they point out the terms may be confused with similar terms in functional and activity dimensions, although the underlying concepts are distinct and can be distinguished in terms of merchandise and trade areas. Finally, they recognize that in describing the subcategories, size and area characteristics are best used for illustrative purposes, rather than strict classification. Due to the increasing role that planners and the entitlement process plays in approving new shopping centers, it is clear that efforts to modify shopping center classification system should address these issues, as well as the needs of various user groups to ensure buy-in and adoption.

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opportunities and changes in market demand. This has already occurred in the anti-big box movement, as well as the emergence of ballot-box zoning that hinges on personal feelings and beliefs rather than on facts and market realities.

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**Retail Development Rationale**

Over the past several years, the strength of the retail sector relative to other property types has drawn more attention to the retail sector by developers in the office, industrial, and housing arena. At the same time, many urban markets have experienced rising land prices due in part to the imposition of urban growth boundaries and related attempts to create more compact, dense development. Because of this, land prices in many potentially viable urban markets have risen to the point that free-standing retail and low-density development are not economically viable, favoring hybrid uses and drawing interest of new players to the retail sector. The end result has been an infusion of new talent, capital, and resources that has translated to new retail development. Much of this interest has been focused on the smaller end of the retail continuum, due in part to the higher barriers to entry and capital requirements for larger formats.

In addition to “traditional retail,” this renewed interest has manifested itself as an interest in new formats and hybrid types including mixed-use, lifestyle centers, market centers and urban infill development. While this interest is important and can be seen as a response to new opportunities, it is also a concern. Success with such formats still depends on a firm understanding of retail fundamentals, as well as the characteristics of other property types and the drivers behind the particular format. Compared to other property types, the retail property sector has benefited from rigorous research and a system of checks and balances in which developers, retailers and capital providers all take a hard look at market fundamentals. Creating successful and profitable developments using mixed-use and hybrid formats also requires specialized expertise that transcends each of the individual sectors and deals with all of the interactions among the various components. Properly configured and disseminated, enhanced shopping center classifications can help guide these efforts and “educate” the market to retail fundamentals and critical success factors. At the same time, they can avoid the risk of developing retail products that do not satisfy retail needs in terms of size, configuration, loading docks, parking, and other elements critical to retail success.

**Retail Leadership Rationale**

It should be noted that mere specification of enhanced classifications will not be sufficient to increase transparency, as they must be widely accepted and become industry standards for reporting and performance measurement. Given its mission and industry prominence, it is imperative that the ICSC play a leadership role in helping add clarity and transparency to the retail sector. Such efforts can help on a number of fronts, leading to a greater understanding of the critical success factors and market drivers that ultimately will determine the success and long-term viability of current, emerging, and new shopping center formats. This role will be important as increasing attention is drawn to mixed-use, transit-oriented development, urban retail, urban infill, brownfield redevelopment, and other complex hybrids, of which the overall success ultimately depends on the success of the retail component. To the extent that such formats are expected to continue to expand, efforts to accelerate their acceptance should be tempered with a strong understanding of how they fit in the overall retail scene, as well as the competitive niches they can fill. This is particularly true as planners, regulators, and some new developers may approach the market from a cookie-cutter perspective, embracing a “one size fits all” approach to managing new retail development.

**Recommended Approach****Overview**

The goal of revisiting ICSC’s classification of shopping centers should be to produce a system that can satisfy the rules of classification discussed earlier: unambiguous, meaningful, and measurable. At a higher level, though, the efforts should also culminate in the development of a greater understanding of

the retail industry, and the important role that it plays in satisfying consumer demand. By progressing understanding of the retail industry, the stage can also be set for more collaborative approaches to solving the range of issues surrounding the management of growth and the revitalization of our cities.

Going forward, one can envision some form of hierarchical typology that breaks retail categories down into functional or locational groupings, with major and minor classes. At the same time, the typology would address various positioning strategies that might further differentiate product in terms of price points or other factors. Any classification system should also address the types of challenges that need to be resolved to add more transparency to the retail scene and avoid some of the ambiguity that could emerge if the issues of classification are not adequately addressed. In developing and promulgating its expanded classifications, the ICSC could help the market avoid some of the mistakes that are looming on the horizon as inexperienced parties move into the retail arena without an understanding of the need for the coordination that is necessary to create sustainable retail solutions.

### **Alternative Approaches**

There are a number of approaches to classification that could be applied to shopping center classifications. For example, in a quantitative sense, it would be possible to apply multivariate statistical models (e.g., Discriminate Analysis, Cluster Analysis) to arrive at a taxonomy that is statistically significant and can be objectively applied. While this has some appeal in terms of reducing some of the ambiguity, it suffers from the fact that it would compromise the face validity, or industry acceptance of the schemata.

Another approach would be to turn to theory to isolate the major factors that should be incorporated into such a classification model, as well as how such a model should be constructed. Again, such an approach has tremendous appeal on the surface, but suffers from the general dearth of relevant theory related to real estate and retail markets. Analysts would be left to borrow theory and principles from other disciplines or applications, merely extending them to real estate, an application for which they were not exactly designed. This approach would fail in terms of industry acceptance, due to the low likelihood that it could provide sufficient insight and understanding of market structure to gain acceptance from industry professionals and other users.

The reality is that the real estate market is largely decentralized, unregulated and inefficient in terms of industry oversight and “best practices.” To gain acceptance, any approaches to quantify the process must be blended with more pragmatic, applied methods that benefit from market knowledge, and insights into how the market actually operates. However, that is not to say that quantitative and theoretical approaches should be ignored, rather that they should be used strategically to empirically test the ultimate schemata and to develop classification tools that can help the industry apply such techniques.

Given the importance and complexity inherent in developing a robust set of shopping center classification and ensuring their adoption, a three-stage process is recommended.

### **Phase I: ICSC Task Force**

In the first stage, the ICSC should charge the task to its Research Task Force. As a member of two of the previous Task Forces assigned to revisit ICSC classifications, once as a member of industry and once as an academic, I can attest to the importance of drawing on industry experts to lead such a project. Several other factors support this recommendation:

- **Market Dynamics.** The retail market is inherently complex and dynamic, resulting in a continuous stream of new concepts and formats. While some of these trends may suggest the need to create a new class of retail, most will fail to gain sufficient market momentum and scale to emerge as a distinct category. Researchers whose job it is to monitor, evaluate, and help implement growth potential for new formats are in a unique position to determine how they should be accommodated in the larger retail context.
- **Strategic Orientation.** Over the past several years, a number of researchers have been charged with taking on more strategic roles as their firms face new challenges and competitive threats. As such, they have been developing more strategic views that can help place new trends and concepts in perspective in terms of industry significance and potential.
- **Diversity.** Over the past decade, the ICSC Research Committee has expanded its membership to achieve and maintain a diverse blend of professionals. At this point, the committee is able to draw upon the expertise of research leaders from the key constituencies that are most interested in and affected by new shopping center classifications. These disciplines include development, retail operations, REIT management, consulting, rating agencies, financial analysts, and academics.
- **Objectivity.** As professional researchers and analysts, members of the Research Committee are trained in how to approach such tasks from an objective and unbiased perspective. Given their backgrounds and collective responsibilities, they are also in a position to be able to resist pressure to add more classes that may increase the allure of particular portfolio holdings or business strategies without providing meaningful insights or increasing the understanding of retail market fundamentals.
- **Historical Context.** Since the initial task of refining the current classification system was undertaken by members of the Research Task Force with staff support, strong representation from such a group can provide an historical context regarding previous deliberations and rationale. Due mandatory term limits, the continuous infusion of new blood in the group should also provide fresh perspectives to balance the discussion and ensure that it considers a range of current and future needs.
- **Implementation and Compliance.** Due to their extensive use of public and for-profit data, and the critical involvement in the launching and continued success of various ICSC data products, such as the Merchandise Index, the Task Force members must be sensitive to the need to ensure the ultimate classification system can be used to increase the market's understanding of the retail sector.

## Phase II: Industry Collaboration

The importance of retail classifications to the broader real estate and investment communities argues that the process of revising shopping center classifications should involve collaborative efforts that engage other associations and industry sectors. This is especially true with regard to industry buy-in and adoption that will be critical to the successful implementation of new classifications. Several industry considerations argue for such an approach including:

- **Interdisciplinary Nature of the Market.** The diversity of specializations within the real estate discipline (e.g., planners plan, architects design, contractors execute and build, marketers lease, managers operate, and investors allocate capital).
- **Importance of Industry Buy-in.** This is especially true with regard to industry buy-in and adoption that will be critical to the successful implementation of new classifications. In addition to the specializations within the real estate profession itself, the system depends on a coordinated, interdisciplinary foundation to operate. The real estate market relies on both Main Street real estate skills and Wall Street capital market skills to function. Within this broad

- spectrum, a number of professional associations have been established and could conceivably be engaged in the determination of shopping center classifications.
- **Synergy.** While the ICSC is the core retail organization, a number of other trade associations are involved in, or concerned about, the retail property sector (e.g., ULI, NAIOP). Similarly, capital market players (e.g., NCREIF, NAREIT), and investors and facilitators (e.g., appraisers, brokers, and planners) directly affect, and are affected, by the retail sector. Each of these parties can add important perspectives to the development of a final retail typology that transcends the level that can be achieved by the ICSC alone. At the same time, the retail initiative can serve as a catalyst that can stimulate similar efforts with respect to other property types, as well as mixed-use property types that involve multiple perspectives and skill sets.
  - **Educational Outreach.** One of the challenges for the retail sector is the education of key market participants, interested parties, and the public to the role that retail plays in the broader market. This is particularly important where there are pressures to “commoditize” the treatment of retail by relying on a “one size fits all” approach. While the pressure to simplify the sector is understandable, market dynamics and competitive pressures argue for educational outreach efforts that can help the market understand these forces and appreciate the role and “value creation” produced by retail professionals. This outreach will be particularly important in light of continued pressures on urban growth and development, and the convergence of real estate development that blends property types, infrastructure, and services.

The previous discussion recognizes the importance of collaboration. However, a sense of pragmatism and process integrity argues that the ICSC should introduce such collaboration after it has completed its more objective analysis and developed a strategic approach to an updated typology. Once a strategy has been developed and the core framework has been established, the circle can be expanded to incorporate other disciplines, associations, and interest groups.

### Phase III: Implementation

In moving toward a broader, more inclusive approach to retail formats, the ICSC should take advantage of the opportunity to provide more industry leadership and help facilitate continued advances in the shopping center industry. These opportunities include:

- **Enhancement of Product and Services.** Modify other products and services such as merchandise index and tenant categories to help implement the new shopping center formats, monitor industry performance, and create new benchmarks.
- **Monitor Structural Change.** Increase efforts to track, monitor, and publicize the emergence of new shopping center formats and innovations.
- **Educational Outreach.** Expand educational/outreach activities to help the market understand the fundamental drivers behind existing and new shopping center formats.
- **Classification Support.** Although the development of a new typology of centers is likely to depend on a combination of qualitative and quantitative considerations, to ensure acceptance and valid applications, the ICSC should develop support materials that can provide guidance in the classification of centers. This support should be capable of being adopted by parties who are willing to apply the system but lack the resources or market awareness to self-classify properties. This may take the form of statistical models that assign properties to various classes, to on-line examples and tutorials that guide such efforts.
- **Industry Training.** Provide training and on-going industry support to properly classify, monitor, and quantify the new retail classification system. This training should be targeted at related associations, including NCREIF, NAREIT, ULI, NAIOP, and individual firms. This

- training should address classification of individual properties, to help ensure that performance measures and statistics accurately reflect the underlying assets.
- **Collaboration and Adoption.** Develop collaborative programs with data vendors and other market participants to encourage the adoption of ICSC classifications and the expansion of third-party services to advance the state of knowledge regarding the industry.

#### **Phase IV: Globalization**

The increasing globalization of economic, business, and retail activities would suggest that ICSC's efforts to enhance its typology of shopping centers should address global needs. While recognizing the ultimate importance of such a task, the sheer diversity of U.S. centers, the current lack of consensus, and the focus of most interest groups on the domestic frontier argues that globalization of shopping center definitions be deferred. This recommendation is based on the diversity of structures, roles, values, and retail models across the globe and the need to develop a prototype that can be "ported" out or serve as a foundation for global efforts. Global representation on the domestic task force or committee is recommended to aid in this process and ensures that the domestic efforts have an adequate foundation so that they can be used to launch a subsequent global effort, or provide a frame of reference for county-specific or regional initiatives. Similarly, members of the domestic group should provide input or support to global groups that are ultimately charged with the same task. Due to the dearth of global data, ICSC may be able to play a more important role in the designation, compilation and analysis of shopping centers on the global frontier than on the domestic front.

#### **Phase V: Market Monitoring and Enhancement**

One of the somewhat unique challenges faced by the retail community is the complex, dynamic, and competitive nature of the market and the continuous re-engineering it triggers. Since this situation is likely to become more amplified as globalization and other macro trends unfold, the final phase of the process should focus on market monitoring and advocacy. The market monitoring should be charged with tracking adoption and compliance in order to ensure that the new or enhanced shopping center classification system is adopted. The market monitoring system should also be structured to lead to early adoption of new trends. This role will be even more important as the retail industry globalizes, and macro trends and innovations emerge from new fronts that transcend domestic frameworks.

#### **Conclusion**

As suggested in this report, the ICSC is at an important crossroads with respect to the classification of shopping centers. While its current typology has come under attack by some who argue they are imprecise, they have contributed to a greater understanding of the structure and performance of the overall retail sector. They have also provided a sense of discipline that has helped cultivate a better understanding of the nature, scope and structure of the shopping center industry. Given the dynamic, competitive nature of the retail industry and increased interest in the role of retail in the revitalization of urban centers, managing growth, and responding to market demand, the timing is right to step back and revisit the current classifications.

This process can benefit from the application of the "rules of classification" outlined in this paper, as well as efforts to expand the market's acceptance and use of the ICSC shopping center classification. The end result should be a more efficient system for satisfying the retail needs of consumers, seeking balanced approaches to growth management, and enhancing performance of retail properties for developers, operators, and investors. A greater understanding of the "value creation" process associated with retail and the underlying business model, coupled with greater collaboration, should open the door to more responsible and sustainable retail solutions that enhance the quality of life for current and future generations.

## Addendum

### ICSC Current Classifications

Type of Shopping Center	Concept	Square Feet (including anchors)	Acreage	Typical Anchor(s)		Anchor Ratio	Primary Trade Area
				Number	Type		
<b>MALLS</b>							
Regional Center	General merchandise; fashion (mall, typically enclosed)	400,000–800,000	40–100	2 or more	Full-line department store; Jr. department store; mass merchant; discount department store; fashion apparel	50–70%	5–15 miles
Super regional Center	Similar to regional center but has more variety and assortment	800,000+	60–120	3 or more	Full-line department store; Jr. department store; mass merchant; fashion apparel	50–70%	5–25 miles
<b>OPEN-AIR CENTERS</b>							
Neighborhood Center	Convenience	30,000–150,000	3–15	1 or more	Supermarket	30–50%	3 miles
Community Center	General merchandise; convenience	100,000–350,000	10–40	2 or more	Discount department store; supermarket; drug; home improvement; large specialty/discount apparel	40–60%	3–6 miles
Lifestyle Center	Upscale national chain specialty stores; dining and entertainment in outdoor setting.	Typically 150,000–500,000, but can be smaller or larger.	10–40	0–2	Not usually anchored in the traditional sense but may include book store; other large-format specialty retailers; multiplex cinema; small department store.	0–50%	8–12 miles
Power Center	Category-dominant anchors; few small tenants	250,000–600,000	25–80	3 or more	Category killer; home improvement; discount department store; warehouse club; off-price	75–90%	5–10 miles
Theme/Festival Center	Leisure; tourist-oriented; retail and service	80,000–250,000	5–20	N/A	Restaurants; entertainment	N/A	N/A
Outlet Center	Manufacturers' outlet stores	50,000–400,000	10–50	N/A	Manufacturers' outlet stores	N/A	25–75 miles

### NRB Glossary

Exploring its glossary of terms, NRB Online recognizes a variety of shopping center formats including:

- **Airport Retail.** A consolidation of retail stores located within a commercial airport. This would not include restaurants and other scattered retail shops along concourses, if not part of a concentrated shopping area.
- **Auto Mall.** A strip center consisting of retail stores aimed at the needs of automobiles such as auto dealerships, oil changes, and auto parts.

- **Community Center.** Has a wider range of facilities for the sale of soft lines (apparel) and hard lines (hardware, appliances, etc.) than the neighborhood center. It is built around a junior department store, variety store, or discount department store as the major tenant, in addition to a supermarket. It does not have a full-line department store, though it may have a strong specialty store. In theory, the typical size is 150,000 square feet. In practice, it may range in size from 100,000 to 300,000 square feet. The community center is the intermediate type of center and is the most difficult to estimate for size and pulling power. NRB includes all centers 100,000 to 299,999 SF GLA in this category of center type.
- **Convenience Center.** A small strip center that provides convenience goods (food, drug, etc.) and/or services (laundry, cleaners, copying, etc.) for the busy one-stop-shopper.
- **Discount Center.** A center in which a discount store is the major tenant in the development with additional retail space consisting of smaller retail tenants and/or a supermarket. This type of center usually draws a lower socioeconomic group as compared to the off-price center. They are considered part of the Value Retail group of centers.
- **Factory Outlet.** A center consisting of manufacturer's retail outlet facilities where goods are sold directly to the public in stores owned and operated by manufacturers. In contrast to factory outlets of the past typically found at the factory sites, today's factory outlet stores are located in mall or center settings and often sell first quality, current season merchandise. Factory outlet malls draw a combination of middle and lower socioeconomic group customers and often include some off-price stores.
- **Festival/Entertainment Center.** A center consisting primarily of food and specialty retailers and entertainment facilities. Many times, the center may be an adaptive reuse or mixed use development and has a heavy concentration of tourist traffic.
- **Home Improvement Center.** A center anchored by a home improvement retailer or with a concentration of home improvement/hardware specialty retailers.
- **Lifestyle Center.** An upscale, specialty retail, "Main Street" concept shopping center. An open center, usually without anchors, about 300,000 SF GLA or larger, located near affluent neighborhoods, includes upscale retail, trendy restaurants and entertainment retail. Nicely landscaped with convenient parking located close to the stores.
- **Mixed Use Development.** A relatively large-scale real estate project with (1) three or more significant revenue-producing uses (e.g., retail, office, residential, hotel/motel, and recreational) which are mutually supporting and developed as a unit; (2) significant functional and physical integration of project components, including uninterrupted pedestrian connections; and (3) development in conformance with a coherent plan.
- **Neighborhood Center.** Provides for the sale of convenience goods (food, drugs, and sundries) and personal services (laundry and dry cleaning, barbering, shoe repairing, etc.) for the day-to-day living needs of the immediate neighborhood with a supermarket being the principal tenant. In theory, the neighborhood center has a GLA of 50,000 square feet. In practice, it may range in size from 30,000 to 100,000 square feet. NRB includes all centers less than 100,000 SF GLA in this category of center type.
- **Off-Price Center.** A center consisting of retail stores that offer brand name goods found in conventional specialty and department stores at 20 to 70 percent below manufacturer's suggested prices. The goods found in an off-price store are generally of higher quality than those found at a discount store. Off price centers draw primarily customers of the middle and middle-upper socioeconomic group.
- **Power Center.** An open strip center with three to five non-traditional, specialty anchors, accounting for more than 75% of the GLA with the GLA of a few smaller tenants accounting for the balance.
- **Regional Center.** Provides shopping goods, general merchandise, apparel, furniture, and home furnishings in full depth and variety. It is built around the full-line department store with a

- minimum GLA of 100,000 square feet, as the major drawing power. For even greater comparative shopping, two, three, or more department stores may be included. In theory a regional center has a GLA of 400,000 square feet, and may range from 300,000 to more than 1,000,000 square feet. Regional Centers in excess of 750,000 square feet GLA with three or more department stores are considered Super Regional. NRB includes all centers from 300,000 to 749,999 SF GLA in this category of center type.
- **Strip Center.** A line of stores often tied together by a canopy over the sidewalk, which runs along the fronts of the stores. A configuration of an open (non-enclosed) shopping center, which may vary greatly in size.
  - **Super Regional Center.** Provides for an extensive variety of general merchandise. It is built around three or more major department stores. In theory, a super regional center has a GLA of 750,000 square feet; and in practice, this ranges upwards of 1,000,000 square feet. The major anchor department stores generally have a square footage of 100,000 square feet each. NRB includes all centers 750,000 SF GLA and larger in this category of center type.
  - **Theme/Specialty.** Centers that are quite diverse in thematic format, size, and market orientation but share common features that distinguish them from other centers employ a unifying theme in architectural design which is carried out by the individual shops; anchored by restaurants and entertainment facilities rather than department stores or supermarkets; strongly appeal to tourists as well as local shoppers; and their tenants typically offer unusual merchandise.
  - **Upscale/Fashion Center.** A center comprised of a concentration of apparel shops, boutiques, and handcraft shops carrying selected merchandise, usually of high quality and high price. A fashion-oriented center may include one or more small specialty department store and gourmet food and food service stores. These centers are most often located in high-income areas.

Source: <http://www.clusterbigip1.claritas.com/MyNRB/Default.jsp?ID=34&SubID=30&title=yes>

### Real Estate Investment Standards (REIS) Classifications

The current REIS classifications are:

- **Neighborhood Center:** Provides for the sale of daily living needs of the immediate area, with at least one anchor tenant. Typical area is 30,000 to 150,000 square feet.
- **Community Center:** In addition to convenience goods, provides for the sale of goods such as apparel or furniture, with two or more anchor tenants. Typical area is 100,000 to 350,000 square feet.
- **Regional Mall:** Provides a variety of goods comparable to those of a central business district in a small city. Includes general merchandise, apparel, and home furnishings, as well as a variety of services and perhaps recreational facilities, and two or more full-line department stores anchors. Typical area is 400,000 to 800,000 square feet.
- **Super-Regional Mall:** Provides an extensive variety of shopping goods comparable to those of the central business district of a major metropolitan area. The anchors are three or more full-line department stores, with typical areas in excess of 800,000 square feet. .
- **Fashion/Specialty Center:** Consisting of higher-end fashion oriented tenants with no dominant anchors. Typical area is 80,000 to 250,000 square feet.
- **Power Center:** Anchor stores are "category-dominant" home improvement stores, discount department stores, warehouse clubs, and off-price stores with three or more anchor stores that occupy 75-90% of the total area. Typical area is 250,000 to 600,000 square feet.
- **Theme/Festival Center:** Anchored by restaurants or other entertainment facilities, and oriented toward leisure and tourist-oriented goods and services. Typical area is 80,000 to 250,000 square feet.

- **Outlet Center:** Manufacturer's outlet stores, with a primary trade area radius of 25 to 75 miles. Typical area is 50,000 to 400,000 square feet.
- **Single-Tenant:** Freestanding structure with no additional anchor stores.

Source: [http://www.ncreif.org/pdf/NCREIF\\_Data\\_Contributor\\_Manual.pdf](http://www.ncreif.org/pdf/NCREIF_Data_Contributor_Manual.pdf)

### Storetrax

Several REITs provided access to their individual holdings through Storetrax.com, a lease listings website. In some cases, the corporate websites linked directly to the Storetrax website; in others, data was not available for the REIT holdings online, but listings were found in a search of listings. As such, the categories recognized by Storetrax are significant to the level of detail provided by some REITs. The Storetrax categories include:

- Community
- Convenience
- Entertainment Center
- Freestanding Retail Building
- Lifestyle Center
- Neighborhood
- Office Building Retail
- Outlet Center
- Regional Center
- Regional Mall
- Street Retail
- Super Regional

Other descriptions found in the listings defined industrial or commercial land uses or vacant land, and were not used for classification of shopping centers.

Source: <http://www.Storetrax.com>