

FEASIBILITY OF OWINGS MILLS MALL REDEVELOPMENT

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Table of Contents:

Introduction.....	3
Property Description.....	4
Mall vs. Neighborhood Shopping Center.....	8
Zoning.....	10
Demographics.....	11
Trade Area.....	14
Development Proposal.....	16
Void Analysis.....	19
Competition.....	21
Financial Risk and Return.....	27
Conclusion.....	29
Exhibit 1.....	CoStar Report
Exhibit 2.....	Master Plan Doc
Exhibit 3.....	Financial Models

Objective:

Kimco Realty Corporation (KRC), a multi national REIT with interest in over 900 shopping centers has purchased a 50% interest in Owings Mills Mall (the property) from General Growth Properties (GGP), the second largest mall owner in the nation, forming a joint venture. Kimco and GGP are proposing to redevelop an enclosed mall into a power shopping retail center in Baltimore County, Maryland. The objective of this analysis is to determine if the retail redevelopment of the property is feasible.

Highest and Best Use:

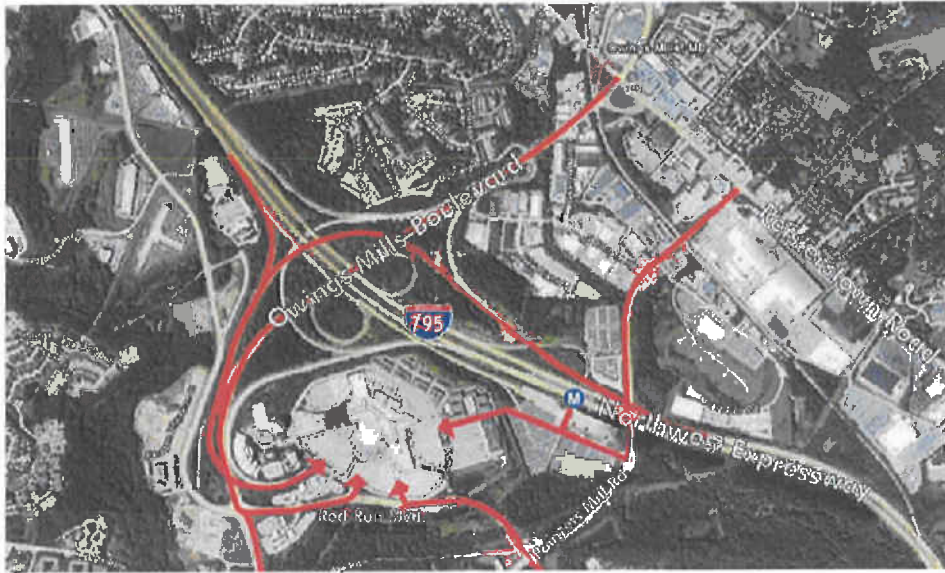
The purpose of this report is not to determine highest and best use. As Owings Mills Mall is nearly 50% unoccupied, that suggests that the highest and best use is not an enclosed retail mall. Many would argue that the vacancy rate of the current distressed mall also proves retail is not the best use in general. The purpose of this paper is to investigate the feasibility of the current retail neighborhood shopping center redevelopment plan under the joint venture of GGP and Kimco Realty Corporation.

Property Description:

The Property, which was constructed in 1985 by the Rouse Company was developed in a similar manner to the Columbia Towne Center (Columbia, MD), and was intended to be the Fashion Center of Baltimore County of Owings Mills and was zoned as Towne Ceter of Owings Mills. Initial development of e center included infrastructure to ensure its success in the heart of Owings Mills. Despite the initial investment, the mall, which opened in 1986, did not meet its full potential . The center was quickly out positioned by the nearby remodeled Towson Towne Center (1991) which became the location the retailers wanted to be. When Nordstrom opened it's first location at Towson, Saks left Owings Mills, consumers followed.

Surrounding infrastructure was built at the same time as the center as the Federal, State Government, and Baltimore County, invested in the new I-795 corridor. At the fourth mile of I-795 is the exit for Owings Mills Boulevard, which also features direct access to Owings Mills Mall from both sides. The property, which is located along I-795 (Northwest Expressway) and Red Run Boulevard, consists of approximately 95 acres currently improved with a restaurant park with five national restaurant chains with long term leases, a national movie theatre, and a mostly vacant distressed enclosed mall. Approximately 15,000 cars travel

through the Red Run Blvd and Owings Mills Blvd daily.¹ In total, the property as a whole in the current configuration is over one million square feet of retail space.



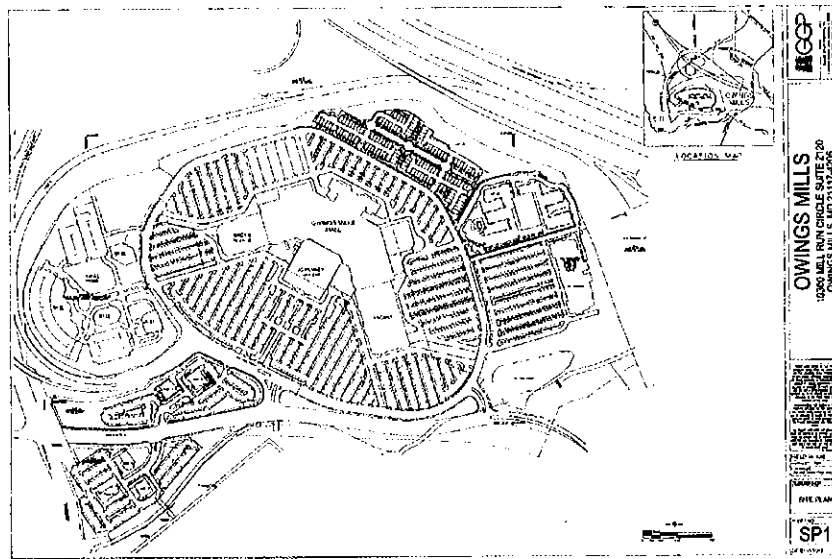
Town Center infrastructure configuration.

The enclosed mall is approximately 880,000 square feet of which approximately 50% is vacant, including two vacant anchors which account for 340,000 square feet. Macy's and J.C. Penney account for 30% or 307,000 square feet and are currently open and operating fairly successful stores despite the surrounding mall. Both national retailers own their own land and buildings and have governing approvals over the site via a Reciprocal Easement Agreement (REA). The restaurant park and movie theatre are both also successfully operating with viable sales,

¹State Highway Association. *Annual Average Daily Traffic (AADT) Locator* May 2012
http://shagbhisdatd.mdod.state.md.us/AADT_Locator_Public/default.aspx

and will remain in the development with no additional redevelopment expense, however operating revenue is included in the analysis.

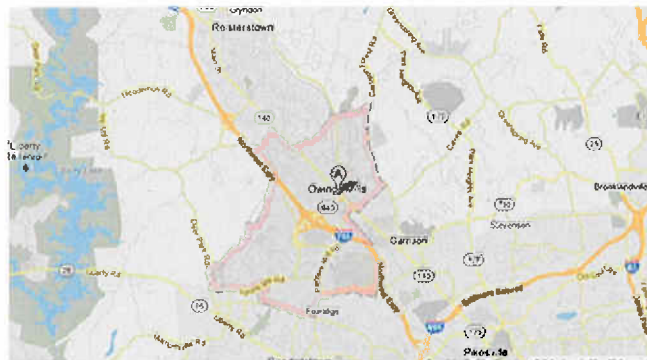
Beyond the few national tenants, the remaining tenants are local non credit tenants who are sparsely located through out the center, providing overlapping service such as numerous barbers and hair salons. Many of the national chains have vacated the center and the remaining tenant selection is reduced regularly as tenant sales can not support their viability in the center, despite low percent of sales rental agreements.



Current Site Plan: Owings Mills Mall

The property is complemented with three office towers, which are not part of the joint venture but provide daily activity of an approximate 3,000 daily office workers. The main tenancy is CareFirst, largest health care insurer in the Mid-Atlantic region. Across from the restaurant park

are two hotels; Hilton Garden Inn and the newly constructed Hampton Inn, which can house an estimated 260 overnight rooms. The property is also surrounded by town homes and multifamily apartments, 266 unit luxury apartment of complex is currently under construction. Sidewalks are abundant and all of these locations are within a comfortable walking distance to Owings Mills Mall. The one square mile radius around the property is bustling with construction activity, including the expansion on Owings Mills Boulevard connecting to Liberty Road. Such improvements ensure the ease of travel of the trade area directly to and from Randallstown.



Owings Mills, MD-Google Map.

Property Condition:

The property is in clean operating condition, however is minimally maintained. The center is littered with water collection devices during rain, as the roof appears to have several penetrations; the parking lot is in need of repair, replacement, sealing, and striping, depending on the section of the lot. The landscaping is no longer maintained, neither on the interior of the center nor exterior. It is clear the landlord has slated

the property for development; however the center is currently open to the public.



Current Site 1: Note low traffic and minimal maintenance efforts.



Current Site 2: Site remains open and operational; however tenant mix and customer traffic is limited at best.

Mall vs. Neighborhood Shopping Center = Power Shopping Centers.

It is obvious that the profitable life of this mall is no longer viable under the current use. I have personally had worked for General Growth Properties for five years and have now worked for Kimco Realty Corporation since 2010. Based on my experience, enclosed mall locations can typically generate rents in \$20-\$200 per square foot

amount (psf), depending on the centers sales per square foot average and the use type of the tenant. In addition to those rents, malls also charge high common area maintenance (CAM) costs. Enclosed malls provide a conditioned and secure environment which translates into \$10-\$40 per square foot to maintain, heat, cool, light, maintain security and safety on the interior and exterior of the mall. The property values of a typical enclosed mall are typically higher than a neighborhood shopping center, which translates into higher real estate taxes. Real Estate expenses are also passed through to the mall tenants, increasing their costs to operate.

Cost vs. Sales Per Square Foot.

Costs vs. Sales Per Square Foot	Enclosed Mall	Neighborhood Shopping Center
Rent psf	\$20-\$60	\$10-\$40
CAM psf	\$10-\$40	\$2-\$6
Tax psf	\$6 - \$16	\$2-\$8
Total	\$36-\$116	\$14-\$54
Sales psf to Achieve Health Ratio:		
20%	\$180-\$580	\$70-\$270
15%	\$240-\$773	\$93-\$360
10%	\$360-\$1160	\$140-\$540
Annual Sales Required	\$630k-\$4.06M	\$245k-\$1.89M

The Owings Mill Mall currently on average spends over \$6MM in CAM and real estate taxes of which it only recovers approximately 15% from

the tenants, the remaining expense is a landlord expense for keeping the center clean, operational, and safe for the few tenants and retailers who occupy or visit the center daily. In comparison, a neighborhood shopping center may garner rents from \$10-\$40 psf, CAM averages two to six dollars per square foot and the same for the real estate taxes.

Neighborhood shopping centers have always been more for entrepreneurs to begin their own business while malls had cornered the high paying national chains.

As the costs in being located in an enclosed mall have grown considerably over time, more national tenants are considering Power Centers as a cheaper alternative to reach their customer base. Current sales per square foot at Owings Mills Mall are estimated to be \$200 per square foot, categorizing this center as a C-D performing site.

Very few local tenants can afford to be in mall environments, national tenants are the only tenants who are able to remain successful in the mall environments-even those national tenants balk at paying mall rents for sales in the \$200 square foot range.

Zoning:

The Property's current zoning is Business Major (large scale commercial) – Commercial Town Center Core (BM-CT) which allows for a variety of commercial and retail uses. BM allows for retail sales, personal service, bank, taverns, food store, medical clinic, service garages, theatres and warehouses. The sites Commercial Town Center Core (CT) designation

clearly indicates the planning commission intension for this site to be the Town Center of Owings Mills. The CT designation is to provide primary shopping areas within town centers on land zoned BL, BM, BR and/or ML. This primary shopping area is intended to contain a high incidence of pedestrian-oriented retail uses of a type ordinarily producing relatively high income and profit per square foot of sales area. The district may include major business generators such as department stores and certain auxiliary services such as offices. The district may only be applied within designated town centers which include Towson, White Marsh, Owings Mills, Eastpoint, Security, Westview, Merritt Point, Pikesville.²

Population, Households, and Employment, 2000
 – 2020: Owings Mills Growth Area per Master Plan

	2000	2005	2010	2015	2020
Population	31,067	38,388	44,057	47,183	47,758
Households	13,486	16,505	18,876	20,296	20,712
Employment	31,970	42,123	48,589	51,992	56,912

Source: Round 7B forecasts, Baltimore Metropolitan Council, June 2009.

Demographics: Regional Malls have a further reaching power into a trade area than a neighborhood or power shopping center. Malls are able to draw from a 30 minute radius or further if no other options are available in the surrounding tertiary markets. When Owings Mills mall was originally built, the vision was that the center would not only support Owings Mills residents with retail shopping but also the more

² *A CITIZEN'S GUIDE TO ZONING IN BALTIMORE COUNTY, 2012*

http://resources.baltimorecountymd.gov/Documents/Planning/citizensguidetozoning/3_Business_Manu_Districts.pdf

affluent Reisterstown and nearby Randallstown. With the high fashion retailers, it was thought the center could draw from the high end neighborhoods in Baltimore City, Towson/Timonium. The demographics at that time indicated that neighborhoods were fairly consistent in relation to each other and therefore the residents would demand similar products.

The demographics have changed significantly since the center was originally built in 1986.

Demographics				
2011 Estimates	1 mile	3 miles	5 miles	10 miles
Total Population:	10,814	71,720	143,813	510,100
Total Households:	4,655	28,580	56,649	200,304
Avg. HH Income:	\$90,108	\$79,947	\$87,542	\$91,019
Med HH Income:	\$78,230	\$69,738	\$72,876	\$73,818
Per Capita Income:	\$38,855	\$33,248	\$35,803	\$36,702

The population reported in the 1990 census indicates that the three mile radius then was 72% white, 25% black, 2.5% Asian, and 1.6% Hispanic. Today, those same statistics as reported in the 2010 census have changed dramatically to 51% black, 34.4% white, 7.8% Asian, and 7%

Hispanic.³ The target consumer has changed-and the retailer options to serve the demographics have not evolved along with the consumer. The center has struggled to provide their community with goods and services that appeal to the market. However, although the demographics have shifted, they are strong enough to support a super regional power center.

Race	Year	
	1990	2010
White	72%	34%
Black	25%	51%
Asian	3%	8%
Hispanic	2%	7%

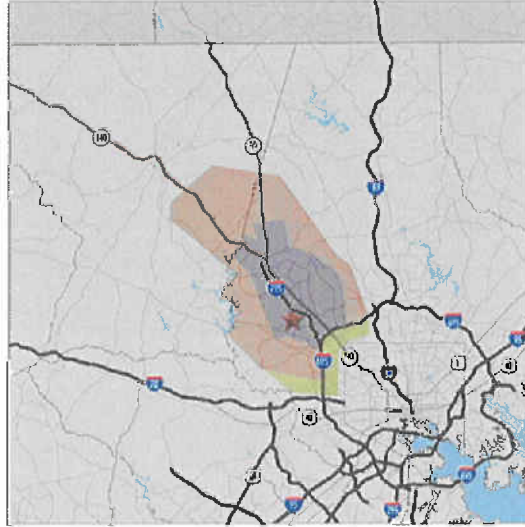
Source: US Census Bureau

There also continues to be a perception issues with which limits the trade area to local traffic rather than extending into the higher income and demographics located east of the property in Carroll County.

Residents and customers often refer to a murder of a mall employee in 1992, which has resonated with shoppers who have declared the center an unsafe alternative.

Neighborhood shopping center and power centers often provide goods and services that are duplicated in the comparable radius of a mall. For this reason, the trade area has been limited to the following trade area follows the roadway networks. However the Liberty Reservoir (Carroll County) acts as a physical barrier of the Liberty Reservoir.

³ United States Census ; Censtats, 4/2012 <http://www.census.gov/>



Primary and Secondary Trade Area as defined by Street Sense.

Overall Trade Area:

Owings Mills is an unincorporated community in Baltimore County, Maryland, a suburb of Baltimore City. Owings Mills is home to around a dozen major shopping centers and numerous office and industrial buildings. The mall was constructed with the ability to enjoy about 200 stores, over 335,000 square feet of inline space. The remaining anchor space accounts for four locations which total over 640,000 square feet. Currently only J.C. Penney and Macy's, over 307,000 square feet remain as anchors and there are numerous vacancies within the mall, including two other anchor boxes 340,000 square feet. As manufacturing sites become vacant, Owings Mills has previously resisted rezoning for instance industrial to retail, as while manufacturing positions offer their residents opportunity for a income to support their families, retail often

provides low paying jobs to teens, senior, and as supplemental income, however the resident must still travel to other cities to provide enough income to support their families.

The Owings Mills Town Center is located less than one mile from the Owings Mills Metro Center. Construction is currently taking place for a new Baltimore County Public Library and a Center for the Community College of Baltimore County within the Metro Center. The activity at the Metro Center is expected to increase four fold with the additional construction at the site today. Tthe current daily exits per Terry Owens, Chief Public Information Officer, Maryland Transit Administration is approximately 5,000 daily.

Major employers include a CareFirst, T. Rowe Price (who will announce further expansion plans with in the next thirty days), Lion Brothers, The Baltimore Life Companies, and the Baltimore Ravens team headquarters facility.

Owings Mills is the northwestern terminal for the Baltimore Metro Subway located on Painters Mill Road, which is very close to the existing mall. Currently the mall has not embraced its close proximity to the subway and has barricaded the property from pedestrian traffic from the subway station. This has been a bone of contention with local politicians

for a number of years. Under the new ownership, the owners of each property have reached an agreement to literally take down the fences that barricade the mall from the pedestrian Metro traffic and open the properties to foot traffic between the two properties. There is also public bus service available on Painters Mill Road, to and from the mall and the Metro Center, and on different portions of nearby Reisterstown Road. Owings Mills Boulevard is now under construction to connect directly to MD Route 26. This will allow easier access for residents of Randallstown and extend the trade area south.

Owings Mills also has several educational facilities in the area, including a satellite branch of the Community College of Baltimore County (CCBC), a branch of the ITT Technical Institute, and Stevenson University.

Stevenson is a growing university with approximately 3,000 full time students with an expansion underway to increase the number of full time students by 25%.⁴

For the Owings Mills market, the primary trade area (50% of sales will come from this area) extends from the northbound ramps from I-695 to I-795 west to the intersection of Route 26 and Marriottsville Road north to the intersection of Nicodemus and Ivy Mill Roads west to the intersection of Route 91 and Deer Park Road north to the intersection of Route 91

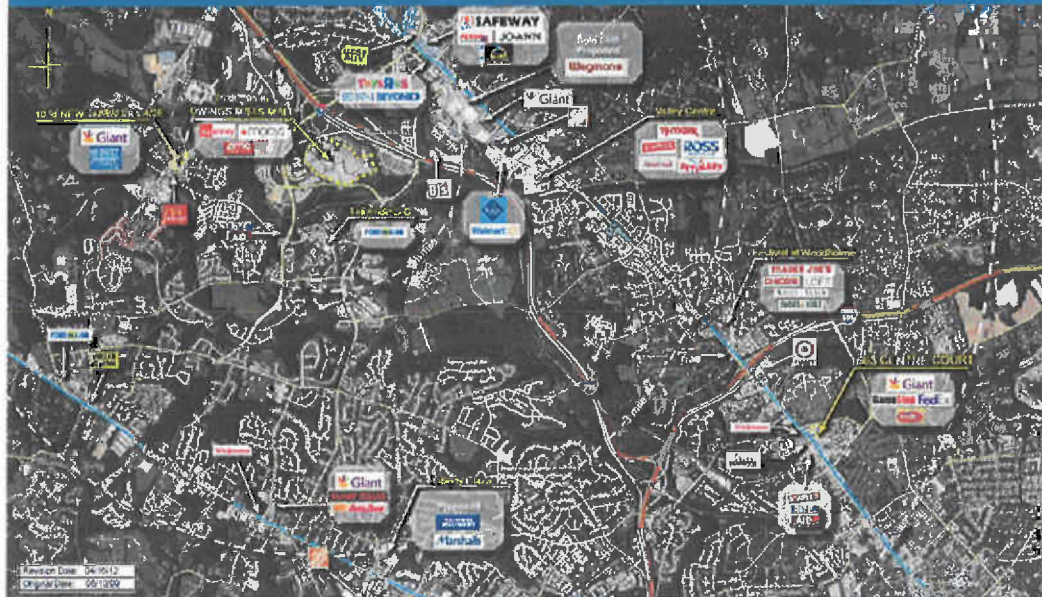
⁴ Baltimore Sun. http://articles.baltimoresun.com/2011-11-15/news/bs-md-co-stevenson-land-20111115_1_stevenson-university-owings-mills-shire-pharmaceuticals

and Lawndale Road east to the intersection of Piney Grove and Longnecker Roads south to the intersection of Route 128 and Worthington Roads east to the intersection of Greenspring Avenue and Caves Road south to the intersection of Stevenson Road and I-695, concluding at the starting point.⁵

Development Proposal:

Currently Owings Mills Mall is an approximately 880,000 sf enclosed mall with four anchors (two vacant and two operating). Macy's and J.C. Penney are operating multi-floor stores connected to the enclosed mall. Macy's owns their building and parking field and J.C. Penny's owns their building. There are two additional vacant anchors – a former Boscov's department store and a two story building located next to Macy's. The mall property also includes a five pad restaurant park and AMC movie theatre. Both are fairly successful and will remain as part of the re-development proposal. Owings Mills Mall is a distressed enclosed mall with nearly 50% vacancy. The mall is out-dated and has been out positioned by retail on Reisterstown Road, and two other nearby malls, Towson Town Center and Columbia Mall.

⁵ Streetsense Technical Memorandum *Retail Market Analysis*, Heather Arnold, March 5, 2012.



Competition Map: Source Kimco Realty Corporation

The property is a very good redevelopment candidate because of the location with strong dense demographics and an existing road network which allows for excellent access. The lack of infrastructure improvements required to change the building use makes it relatively reasonable for a developer to invest and not only expect a return on the investment, but a return of the investment. The area is surrounded by multi family home, office, and hotels. The lack of surrounding retail indicates that the retail corridor does not exist around the center.

The public proposal for the center includes reducing the amount of retail GLA in total, while essentially turning the inward facing mall retailers – outside. The current anchors, JC Penney and Macy’s would remain as they own their own properties and are not under the control of the center

and they provide destinations for those shoppers seeking those well known name brand department stores. The portion of the center surrounding the two anchorsrest of the center would be demolished. Macy's would be joined by neighboring anchors that may be a little unusual for the typical line up, including potentials such as Lowe's, discount grocery warehouses "clubs" such as Costco or BJ's (via relocation), Target (also via relocation) among the potential tenants. These large retail boxes appeal to all demographics and can serve multiple communities, and pull from further trade areas. The two story box is two different retailers, stacked upon each other. The grade of the site allows for two anchors to be stacked. Each store would have a store front in one direction. The anchors would have ground level entries on opposite sides of the build. Target, Lowes, and Wegmans would be the preferred users of this site design. They have large foot prints, are destinations, and pull from demographics outside a three mile ring-their customers are willing to drive 15-20 minutes for the destination shopping those tenants provide. The stacked concept allows each full frontal access for parking, entry, and exit, neither is at a disadvantage. Filling in the remaining space would be a Lifestyle, or Mainstreet, element which would compliment the existing movie theater and restaurant park. The tenant mix for the lifestyle component could include additional boutique retailers that identify to the cross cultural demographics which lie within Owings Mills, in addition to specialty

