

# Big Box Reuse

April Chastain, RMLS Fellow & Certificate of Real Estate Development Student

The current recession poses new opportunities as well as challenges. With the retail market contracting, there are a number of big box stores that have become vacant. According to third quarter reports by Norris Beggs & Simpson, Portland currently has an 8 percent overall retail vacancy, which equals 3,481,017 SF of vacant retail space. A number of retailers have gone bankrupt during this recession, two of which have completely liquidated their assets and closed their doors, Linens-n-Things and Joe's Sports & Outdoors.

Portland has its share of big box stores, although the situation here is a little different than those faced by other cities in the nation. Empty boxes may present an opportunity for national chains to enter the market, according to an article in the Portland Business Journal<sup>1</sup>. In January of 2009, when it was written, there were 11 empty big box stores in the area, "including four former Linen's N' Things stores, three Shoe Pavilions, two Levitz Furniture stores, a Mervyns and a Wickes furniture store". More vacancies were expected. Some have found temporary fillers, such as Linens N' Things on SE 82<sup>nd</sup>, allowing The Spirit of Halloween store to occupy part of the building. The article says that Portland has too many smaller big boxes, defined as 100,000 SF and below, which do not attract national chains that typically require retail spaces of 150,000 SF and larger.

Since that article was written, Joe's Sports & Outdoors was liquidated and closed, although Dick's Sporting Goods has leased three of the vacant stores throughout the metropolitan area. According to Norris, Beggs & Simpson, the third quarter retail vacancy moved up a whole percentage point over last quarter with 365,818 SF of newly vacated space. Of the submarkets in the Portland metropolitan region, Vancouver has the highest vacancy at 11.6 percent, which equals 1,000,518 SF of vacant retail space. The Southwest, which includes Washington Square, has 859,908 SF available with an 8.4 percent vacancy rate. The Southeast/East Clackamas submarket has the lowest vacancy rate at 4.3 percent and 228,127 SF of vacant retail space.

Julia Christensen's book, *Big Box Reuse*, published in 2008 by MIT, suggests some possible solutions to the glut of vacant retail big box stores. Christensen's interest in big box reuse and research for the book began before the Great Recession. Substantially more big-box stores may now be vacant without other tenants available to re-rent the buildings. However, the book does offer some insight into the challenges facing communities as they search for ways out of the recession. From interviews on NPR to a scathing review by Martin Zimmerman in *Urban Land*, the book is at least sparking conversation about what to do with unwanted big box stores, a conversation that may be provoking communities to try to prevent them in the first place, rather than have to deal with their short-lived



<sup>1</sup> <http://portland.bizjournals.com/portland/stories/2009/01/05/story1.html#>

utility, lack of architectural inspiration, and negative environmental impacts. That aside, Christensen illustrates some intriguing reuses for big box stores across the nation. She chronicles several, civic and community uses, including several schools that have been adapted to fit into the vacant buildings.

Christensen's website<sup>2</sup> makes use of an interactive map to provide insight into several of the places she visited in the course of writing her book. It includes three schools, several apartments, a library, a justice center, a medical center and even a Spam Museum. She admires the creativity of people trying to decide what to do with these buildings. She also notes that most of these vacant buildings are not abandoned because the retailer goes bankrupt, but rather simply because it builds a bigger, better box nearby, frequently within a mile.



In Kentucky a group of four doctors privately renovated a Wal-Mart into The Central Kentucky Comprehensive Medical Center. The \$4 million dollar renovation provides 44,000 SF of space, which is home to 88 examination rooms, a chiropractic suite, a wellness center, a physical therapy center with small pool and an indoor walking track, among a variety of other services and amenities.



Christensen's website also shows the Sugar Creek Charter School in Charlotte, NC, which is housed in an old K-Mart that is being renovated in stages. The school moved into half of the site in 2000 and plans to add a gym, cafeteria and more classrooms, as time and money allow. The layout of the hallways of the new school can be seen following the aisle layout of the old K-Mart to take advantage of the original wiring. The school added skylights to let natural light into the building.

<sup>2</sup><http://www.bigboxreuse.com/>

A local example of a retail facility converting to another use can be found in Vancouver. Mastro Properties<sup>3</sup> based in Seattle, renovated a 200,000-square-foot shopping center into an office plaza, which it leased to several state agencies, the U.S. Postal Service, Health Experience A.C. and Columbia Credit Union. In 2004, Mastro Properties sold the Town Plaza Business Center in Vancouver to Tower Mall LLC for \$27 million.



Christensen's book explores Wal-Mart's business model, which relies on vacating the first round of stores after building a bigger store nearby, because it is cheaper to build a new store than to close and lose sales during renovation. A chart from the book shows that Wal-Mart built 1,980 supercenters between 1995 and 2006. The number of discount stores decreased from 1,990 to 1,209 in that same time period.

Another way Wal-Mart has been influencing retail vacancy is through the use of non-competition clauses in the original leases that do not allow other retailers, expressly including K-Marts, to reuse the buildings. The old buildings then remain as real estate placeholders staving off the competition. This has led many communities to invest in institutional reuses. Since libraries, schools and community centers do not compete with retailers, they can take over the lease of the property without violating the non-competition clause. Christensen decries the ethical implications of building these big boxes in the first place, since they pose large environmental impacts during construction, cannot function without cars and must create huge parking lots. However, reusing the big-box buildings, while not advancing smart growth principles of compact development, is considered by her to be greener than simply demolishing them to build others. The problem, she contends, lies in the underlying infrastructure and business models that promote sprawling suburban development.

In a June 2009 Urban Land magazine article, Jeffrey Spivak<sup>4</sup> starts from the premise that "communities would prefer not to get stuck with empty big boxes in the first place." He notes that many communities are taking preventive measures to try to promote a different building model by imposing regulation such as:

- Setting a size limit on retail buildings;
- Establishing stricter design standards, and

<sup>3</sup> "Mastro sells Vancouver office plaza," Portland Business Journal, January 19, 2004.

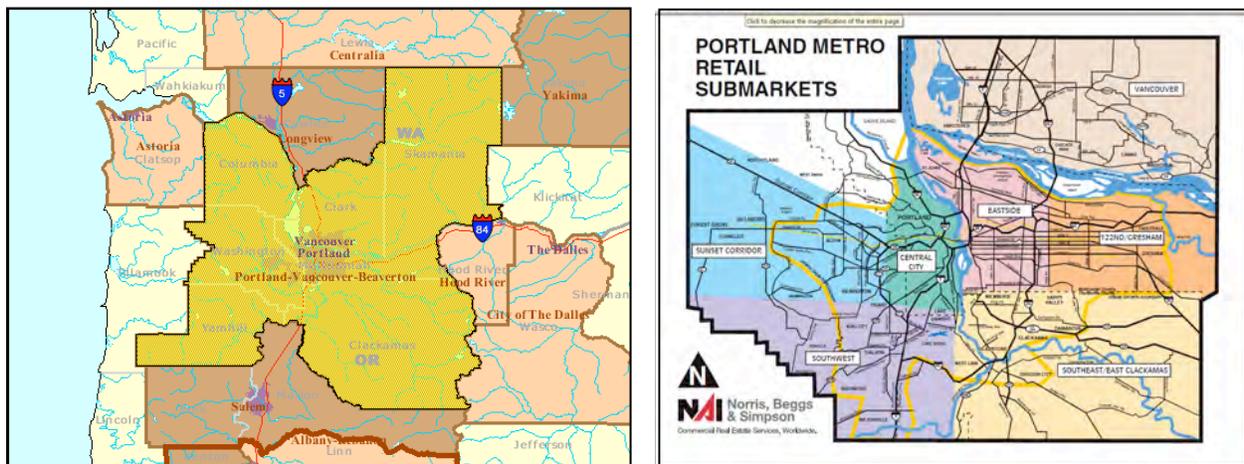
<sup>4</sup> "Reusing Big Boxes," Urban Land, June 2009. P.56 et. seq.

- Requiring a demolition bond to provide money for razing a big box if it remains vacant for a prescribed period.

Another book, “Retrofitting Suburbia,” by Ellen Dunham-Jones and June Williamson<sup>5</sup>, notes a retail trend in the United States as a result of overbuilding retail space as part of the leapfrogging pattern of development that has occurred as cities have spread farther from their cores. They note that in 1986 there were 15 square feet of retail space per person, increasing 20 percent to 20 square feet per person in 2003. Canada averages 13 square feet per person, Australia 6.5 square feet and Sweden (the highest in Europe) boasts a mere three square feet per person.

The Portland metropolitan area currently has a total inventory of 43,654,248 SF of retail space, although 3,481,017 square feet of it currently sit vacant, according to a report by Norris Beggs & Simpson. According to the American Community Survey, the projected population for 2008 for the Portland Metropolitan Statistical Area (Portland-Vancouver-Beaverton) was 2,209,114.

Assuming that the two measurements cover approximately the same area, Portland would have 19.8 square feet of total retail space per person, approximately the same as the national average in 2003. See the following maps for comparison. It seems that the census area encompasses more of the surrounding rural area than the retail submarket map, which would suggest that the actual ratio of retail space per person is even larger, although the residents counted in the Portland Metropolitan Statistical Area probably shop to some extent within the retail area shown.



How will the consolidation of retail space as a result of the Great Recession, the demise of many big box retailers and the paucity of retailers to occupy the vacated space, particularly in the 25,000 to 100,000 square foot range impact the reuse of these vacant retail spaces? Inevitably retailers will consolidate, as retail likes to be near retail. It seems that the quicker this happens the better off retailers will be. Of course there will be winners and losers. Retail areas that lose tenants could consider their options: non-retail tenants or land banking for future redevelopment.

Schools, hospitals, and clinics have minimal funds if any for expansion right now. In fact the Portland Public Schools District has already consolidated some schools and may consolidate others. The current healthcare debate may bring opportunities, depending on what legislation, if any comes out of Congress. Other options to fill vacant retail spaces include: industrial incubators, fitness centers, daycare centers, senior centers and government offices. If healthcare in general shifts toward preventive services and general health maintenance, then

<sup>5</sup> “Repurpose-Driven Life,” The New York Times, June, 2009

there may be a greater need for wellness and community centers promoting exercise programs. Remote retail locations might even be considered for low-security detention facilities.

Metropolitan and local governments could implement policies that encourage retail consolidation near transit centers and along transit lines, and allow for a greater mix of uses, encouraging more office and residential within commercial zones. The UGB in Portland and other Oregon cities will probably cause more redevelopment and re-use to occur than in other states, since development opportunities and parcels will be more limited. Communities could also look to purchase the land, assemble larger pieces and plan to redevelop it in the future when the time is right and needs are more apparent and economically feasible.