

# The Importance Of Design

**Design has become more important to the two key audiences of shopping center owners: customers and tenants.**

Interview by Randall Shearin



Metropol is a project in Istanbul, Turkey, that features design in mind for tenants as well as consumers.

The project is being designed by Roy Higgs International.

**SCB** recently interviewed Roy Higgs, president of Roy Higgs International and Nick Egelanian, president of Site Works International to discuss how design impacts retailers and customers. The two often work together on retail and mixed-use projects. Both have been involved in the creation of retail properties for more than 30 years.

**SCB:** What are the strengths needed, architecturally, for today's projects versus projects in the 1980s and '90s?

**Higgs:** Design used to be difficult to quantify. There's been a major change of emphasis to design. Placemaking has become a big buzzword. It has become important in all facets of our work. Design has become radically important to today's

shopping centers, and this isn't just a trend like using brick instead of stucco. Design is really becoming one of the features that helps to create an identity for a center.

**SCB:** Why has it become more important to owners that their retail environments have an identity? Why do they want centers to be iconic?

**Higgs:** The retail industry today is more competitive than ever. To use an old adage, if you can invent a better mousetrap, you will catch more mice. Design started getting more important to developers about 10 years ago. Now, because of the competitive environment, design can differentiate a property.

**Egelanian:** About 15 years ago, retail

really stratified into two very different sectors: commodity retail and specialty retail. Commodity retail is functional; think power centers and neighborhood grocery-anchored retail. With specialty retail, owners really have to create an attraction. With commodity retail, consumers are not necessarily seeking special places to shop; they are seeking efficient places to shop. The regional mall was a formula-based development model. Malls were left to define themselves by the mix of merchants or the place. In today's world, with specialty retail, place is everything.

**Higgs:** Ninety-five percent of my work has been with specialty retail.

**Egelanian:** Right now, retail is changing more than at any point since I have



been in the business over the last 30 years. Most department stores are increasingly irrelevant. If you think back to what a department store was in 1970, you had everything from stationery to auto parts to food to apparel and housewares. Every part of the department store has been removed and placed in a more efficient commodity real estate format.

**SCB:** Site Works is a collaboration of experts from different disciplines of the industry. Do you feel that many owners are asking for more expertise in developing — or redeveloping — projects?

**Higgs:** Yes. The success of a project often depends on the background and knowledge you put into it, and that isn't just design. It is how you implement design and plan for the uses. You need experts who have experience knowing that this use works well with that use, if placed at this point in the project.

**Egelanian:** We are an industry that has lost a lot of merchandising over the years through retail formats that have come along. You are starting to see a resurgence of projects that embrace merchandising.

Avalon, in North Atlanta, is a great example of that. There is a tremendous amount of pressure put on the architects to create a successful project. We often don't merchandise well, putting tremendous pressure on the designers to make up for those faults.

**SCB:** How will new projects be different than those in the past?

**Egelanian:** In the United States, we have taken the underpinnings of the regional mall and thrown that out the window. The rise of the fortress malls means that they will likely have the strongest and best tenants in a given market. That does not necessarily make the regional mall industry as a whole healthy. The B and C malls will continue to suffer because we have a tremendous amount of people moving back to the urban areas. That might be an opportunity for some regional malls.

**Higgs:** In Canada, retail space is at such a demand that retailers who want to open stores have to buy out existing retailers. Often, they will buy out the whole chain. My work in Canada, if it is not urban, it is becoming urban because of the density.

**SCB:** The experience is so important to the consumer today. How do you explain this?

**Egelanian:** Very simply. Consumers today make their decisions about specialty retail based on one criteria that appeals to them: that they feel happy there. They want to spend their valuable time and extra income at a place that makes them feel good.

**SCB:** What do you see as the future for the regional mall?

**Higgs:** We need to look at Canada as an example. There, many of the regional malls, if not most, are going through a recycling process where they will not just be malls anymore. They are becoming true town centers. The developers are adding density with residential, office, additional retail and more. All of the additional retail around these centers is all open-air. The areas around these centers are becoming more dense; they are creating infill markets.

**RHI**  
STUDIO

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**Egelianian:** If we bring that back to the U.S., there are major shifts going on in how retailers are viewing off-price retail and what the role of that is in their companies. That is happening for two reasons: retailers are finding that the ability to expand sales in their traditional full-price formats is limited. The barriers to expanding their discount or outlet footprints are limited because of the real estate that is available. At the same time, department stores are becoming less relevant. There is a lot of convergence going on that is going to change the way that middle America shops. One project I think that exemplifies this is Federal Realty's Assembly Row near Boston. It is mixed-use with residential on top of retail. The retail is primarily outlets. In the center, there are restaurants with multiple entertainment concepts. No one has done that before. It is performing extremely well. More importantly, the retailers are willing to open outlets in close proximity to a major city. You would have never had the retailers doing that during the era when department stores ruled. I think you will see this type of model happen in a bigger way going forward. If you are a developer or a retailer today, you are being asked to assemble merchandise or tenants in a way that has never been done before.

**SCB:** You're touching on a leasing issue that is prevalent. In many markets, there is not a lot of specialty space left. A lot of top retail space has been filled in and not a lot has been built in the past seven or eight years.

**Egelianian:** If you look at the commodity side of the business, there hasn't been enough economic or population growth to generate new retail space. At least not enough for the financial community to back new development. On the specialty side, we are seeing a lot of repurposing of older buildings. We have too much retail space on that side, but much of it is obsolete space that needs to be repositioned for today's retailers and consumers.

**SCB:** We've touched on the theme that several retail types are converging. How do you see convergence?

**Higgs:** Projects that have a convergence of retail types could end up being the dominant format in specialty retail over the next 10 or 20 years.

**Egelianian:** I agree that it will be dominant retail type. It could slowly replace and C malls.

**Higgs:** In this entire conversation, we've barely mentioned the Internet. The industry has really overcome that fear and realized that online sales go hand-in-hand with bricks-and-mortar.

**SCB:** What do you think we will see in the industry in the near future?

**Egelianian:** I think we will see significant merger activity among commodity REITs over the next few years. I really don't know how we can avoid that. Cap rates are at historically low levels; core commodity centers are at 97 percent occupancy and no one wants to build. If they want to grow, they will have to acquire. **SCB**



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