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An empirical analysis of tenant location patterns near department stores in planned regional shopping centers ☆

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ABSTRACT

The location of a store within a mall can affect the sales and profits of the store and its neighbors, and those of the mall's owner/developer. Because the interests of retail stores and the mall's owner/developer with respect to choice of location might not coincide, bargaining power might come into play. To assess empirically whether relative bargaining power as between a retail store and the mall owner/developer affects store location within a center, we focus on locations of stores near the department store tenants of malls. Department stores might have the bargaining power necessary to affect which tenants are chosen as neighbors of the department store.

Using data collected from 148 regional shopping centers (malls) in 2007 in the five westernmost provinces of Canada, we examine the relationship between variables that reflect store location patterns near a department store's entrance, and variables associated with the bargaining power of developers. We find that the density of stores selling comparison shopping goods is larger near department stores within centers that are older or have a larger gross leasable area. In addition, such density is negatively related to the number of department stores contained in the center. Because a shopping center's age, gross leasable area, and the number of department stores in a center are expected to be associated with a developer's bargaining power, the above findings are consistent with the hypothesis that the store location patterns near department stores depend on the relative bargaining power of the developer and the department stores.

1. Introduction

Over the years, shopping centers have been studied from a variety of perspectives. Eaton and Lipsey (1979) and Stahl (1982a, 1982b) were concerned about the incentives for retail stores selling similar products to cluster to facilitate comparison shopping. Eaton and Lipsey (1982) provided an economic theory of central places based on multipurpose shopping that could explain the formation of the type of hierarchy of shopping centers contemplated by Christaller (1966) and Berry (1967).

Subsequent papers have acknowledged the important role played by the shopping center owner/developer in determining the composition and competitive success of planned shopping centers. For example, the choice of tenant mix by the developer has been examined by Bean et al. (1988) and Brown (1992). The way in which store rents are set by the shopping center owner/developer has been discussed in Benjamin et al. (1990), (1992), Gatzlaff et al. (1994), Gerbich (1998), Gould et al. (2005), and Pashigian and Gould (1998). Theoretical studies that focus on the internal composition of malls include those by Brueckner (1993) and Miceli et al. (1998), but they did not analyze store location within a shopping center.

Other recent papers have considered whether and how shopping center configurations could be affected by the possibly conflicting incentives of both retail chains and shopping center owners/developers. West (1992) and Golosinski and West (1995) analyzed the extent to which planned shopping centers were similar in terms of the store brands that they contained, with the latter paper offering a double moral hazard explanation for the observed similarity. Eckert and West (2008) proposed that whether a radius restriction could be imposed by a developer on a retail chain tenant of its shopping center will depend upon the relative bargaining power of the chain and the developer. Eckert et al. (2013) carried out an empirical analysis of planned regional

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shopping centers ("malls") in order to examine the extent to which locations of stores within these shopping centers are consistent with the exploitation of demand externalities that could benefit either or both the developer and retail chains, and with the fact that consumers incur transportation costs within a shopping center.

In this paper, we recognize that the location of a store within a mall can affect the sales and profits of the store and its neighbors, as well as those of the shopping center owner/developer. We also recognize that these interests with respect to choice of location might not coincide. To assess empirically whether the relative bargaining power between a retail store and a shopping center owner/developer affects store location within a center, we focus on locations of stores near the department store tenants of malls. The department store anchors of malls might have the bargaining power necessary to affect which tenants are chosen as neighbors of the department store.

In a mall, a developer would be expected to have the power to decide where a store will be located. However, shopping center leases may contain restrictive clauses that give department stores veto power over the admission of new tenants (Wunder, 1988) and the power to influence the locations of other stores in the center (HLR, 1973; Mason, 1975).[1] In the event of a conflict of interest, the location pattern of stores near department stores would depend on the relative bargaining power between the developer and the department store.

Using data collected from 148 regional shopping centers in 2007 in the five westernmost provinces of Canada, we examine the relationship between variables that reflect store location patterns near a department store's entrance, and variables that indicate the bargaining power of developers. We find that the density of stores selling comparison shopping goods is larger near department stores within centers that are older or have a larger gross leasable area. In addition, such density is negatively related to the number of department stores contained in the center. Because a shopping center's age, gross leasable area, and the number of department stores in a center are expected to reflect a developer's bargaining power,[2] the above findings are consistent with the hypothesis that the store location pattern near department stores depends on the relative bargaining power of the developer and the department stores.

The remainder of this paper is organized as follows: Section 2 presents a discussion of owner/developer and department store bargaining power and the variables associated with one versus the other. Section 3 describes the data used in this paper. Section 4 discusses the econometric model, while Section 5 presents the summary statistics and the regression results. Finally, conclusions and final remarks appear in Section 6.

2. Shopping center developers, department store chains, and bargaining power

In this paper, we study how the location pattern of stores near department stores in a mall might be related to the relative bargaining power of the owner/developer and the department store. Our interest in locations near department stores in malls requires us to limit our attention to the regional level of the shopping center hierarchy. Lower levels of the shopping center hierarchy (e.g., the neighborhood level and the community level) contain stores that are also found in regional level centers, but they do not usually contain department stores (see West et al., 1985).

Besides containing department stores, planned regional shopping centers (malls) also have a wide variety of store types that largely fall into two major store categories, M stores and C stores. These terms were defined by Golosinski and West (1995), 462–463. C stores are those types of stores that cater to comparison shoppers on a multipurpose trip. C stores sell merchandise that is (a) highly differentiated in both horizontal and vertical dimensions and for which branding is important, and (b) sufficiently costly that there are perceived positive net returns to search across stores for price and quality.

Examples of C store types include ladies' wear and shoe stores. M stores are those types of stores that cater to multipurpose shoppers on multipurpose trips. Some M store types mainly sell goods, while other M store types sell services. For M stores that sell goods, (a) on a given shopping trip consumers are expected to engage in little search across M stores of a given type because expenditures on the goods involved and price variations between stores will tend to be small compared to the associated search costs, (b) the goods tend to be frequently purchased experience goods, and (c) the goods tend to be the same or very nearly so across M stores of a given type, hence reducing the incentive to search.

Examples of M stores include book stores and grocery stores. M stores that sell services are distinguished from those that sell goods because while characteristics (a) and (b) apply to both, characteristic (c) does not: there can be considerable quality variation among M stores of a given type that sell services. Besides C and M stores, malls might contain certain store types (e.g., restaurant and fast food, financial) that do not easily fit into these categories. We therefore also allocate some store types to an Other Retail store category and to a non-retail store category. The list of store types used in this paper is obtained from the 2008 *Canadian Directory of Shopping Centers*. Store types are then designated as C, M, Other Retail, and non-retail, largely following the breakdown used by Golosinski and West (1995).

Department stores are important to regional shopping centers and clearly have an impact on the size, character, and success of a center (Vitorino, 2012). Such influence is expected to mainly come from their attractiveness to consumers. Department stores provide a large variety of products and services that are frequently also sold by a number of M and C stores. Because they facilitate one-stop, as well as comparison and multipurpose shopping, they attract customers to the shopping centers where they are located. This can increase the sales of other stores in the center, and also increase the rents that can be collected by the owner/developer of the center (Pashigian and Gould, 1998; Gould et al., 2005).[3] Another aspect of the department store's importance to the owner/developer comes from its ability to help owner/developers obtain outside financing for the shopping center (HLR, 1973). Leases with department stores allow developers to more easily fulfill the terms, floor area, and credit risk conditions imposed by lenders.[4]

On account of the demand externalities generated by department stores in a mall, department stores pay lower rents per square foot than other stores in the mall (Pashigian and Gould,

[1] The FTC has challenged lease clauses that give department stores veto power over tenants as being exclusionary (see HLR (1973)). It is not clear that giving the department store tenant control over the type of tenant located within a certain radius of the department store would also be viewed as exclusionary. We are unaware of any Canadian regulations governing restrictive covenants in shopping center lease arrangements.

[2] See Section 2.2 for a detailed discussion of the indicators that reflect the bargaining power of developers and department stores.

[3] Gatzlaff et al. (1994) found that the rental rates of non-anchor tenants declined by an estimated 25% in response to the loss of an anchor.

[4] Mortgage lenders typically require 60% to 70% of the total floor area to be under long-term lease to firms with low credit risk before they approve financing (Kinnard and Messner, 1972).