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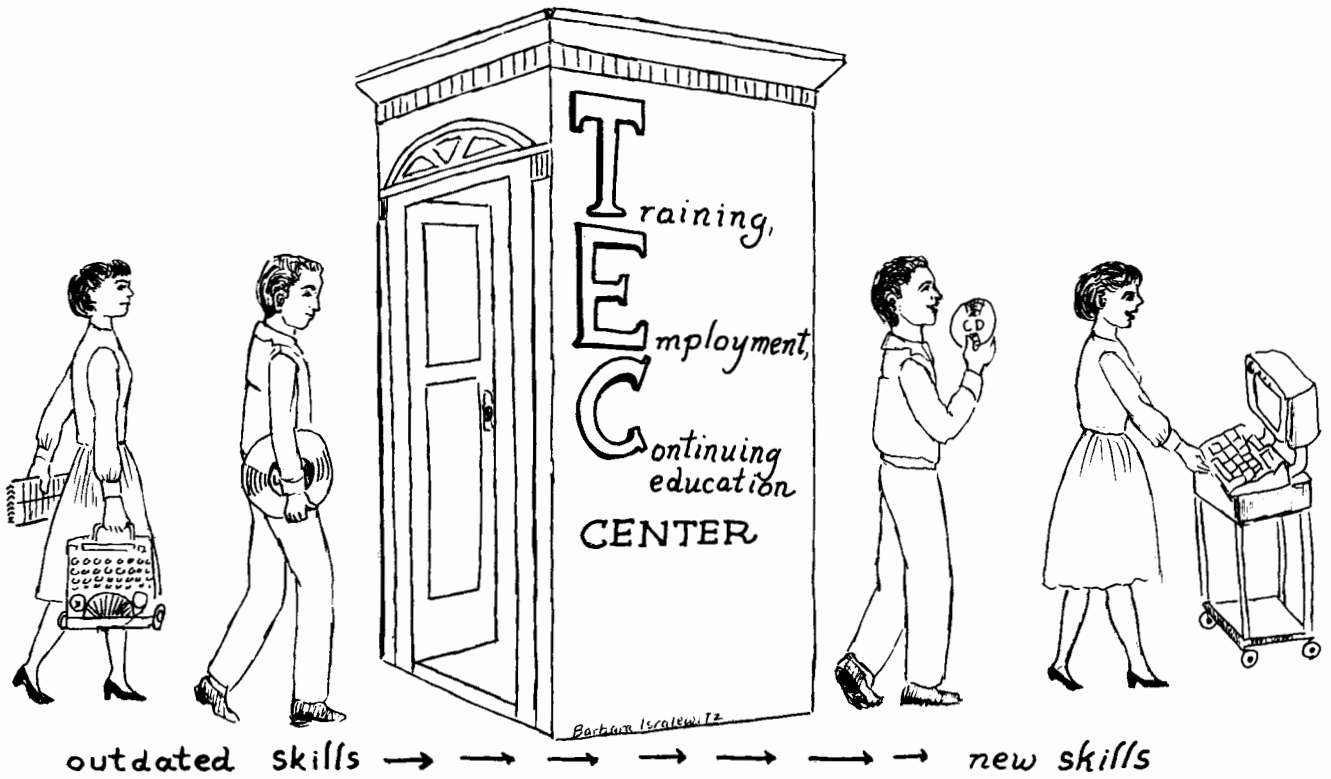
The accelerated pace of technological change creates recruitment needs that are frontiers of opportunity.

Converting Shopping Centers into Campuses

Paul Zane Pilzer



SOME SIX YEARS AGO IN MOSCOW, a US economist representing shopping centers was enthusiastically explaining to a group of Soviet economists how certain US retail tenants had increased their sales 300% to 500% without increasing the size of their stores. The new US mass merchandisers, with the assistance of computerized inventory control, high-quality merchandise, increased selection, and lower prices, were able to raise their annual sales from the US average of $107 per square foot to $300 per square foot and more.

A sad-faced Armenian economist asked the American what he planned to do for a living when his employer, a medium-sized shopping center developer, went out of business. The Armenian reasoned that the increased sales of these innovative vendors came at the expense of other, less efficient enterprises that would soon cease to exist. If an innovative retailer increased sales per square foot by 300% to 500%, it was inevitable

Economist, businessman, and professor, Paul Zane Pilzer is a contributing editor of *Real Estate Review* and the author of *Unlimited Wealth* (Crown Publishers, Inc., 1991). Mr. Pilzer is also the managing partner of Zane May Interests, an adjunct professor at New York University, and the author of *Other People's Money* (Simon & Schuster, 1989).

that the total square footage occupied by US retailers would fall to one-third to one-fifth of the current level. Thus, the Soviet, in 1986, realized that a US real estate recession would shortly affect retail property.

In 1991, there were in the United States approximately 38,000 shopping centers, consisting of about 4.6 billion square feet. Their total sales were approximately $717 billion per year,[1] about $156 per square foot. However, the technological advances in marketing and inventory control already discussed indicate that the industry can attain that $717 billion in sales with fewer than 19,000 shopping centers with less than 2.3 billion square feet—about a 50% reduction in space.[2]

This assertion is based on the fact that most of the newer, more innovative retailers (e.g., Wal-Mart, The Gap, and Toys 'R Us) typically produce annual sales of more than $300 per square foot. The financial troubles of many existing retailers (Macy's, Federated Stores, and Sears) are due in part to the competition of these innovative retailers, which are rapidly taking business from their competitors—mostly by increasing sales volume in existing stores. As sales per square foot rise because of more efficient use of real property assets, the less total shopping center space is needed to distribute merchandise to consumers. If current trends continue, the result feared by the Soviet analyst may occur: only one-third to one-fifth of existing shopping center space may be successful.

Fortunately, the long-range indications of this phenomenon are potentially more positive. The recent decline in the overall demand for retail property space owing to the advance of technology is not unprecedented. What is new is merely the speed at which change is occurring. An examination of what has happened to other real estate for which demand was reduced because of technological advances offers suggestions of what should be done with shopping centers that are no longer needed for their originally intended use.

THE ORIGINAL COMMERCIAL REAL ESTATE BUSINESS

Until the 1930s, most real estate business involved farmland. In fact, the largest owner of commercial real estate in the United States, the Prudential Insurance Company, made its mark during the 1930s as a lender on agricultural property.

But technological breakthroughs made obsolete most of this agricultural real estate business. Developments in mechanical irrigation and chemical pesticides increased yields per acre so radically that the demand for farm acreage plummeted. (Whereas in 1930 30 million US farmers fed 100 million people, in 1980 3 million farmers were able to feed 300 million people—30-fold efficiency improvement.[3]) For agricultural land, the adage, "Buy land, they aren't making any more of it," became, "Sell land, they don't need any more of it!"

But the abandoned farmland ultimately did not lose its value. In time, other new technological developments increased the value of much farmland to several hundred times its value in agrarian use. And, as is usually the case, the greatest rewards were reaped by those who first embraced the new technologies.

The recycling of farmland for a different use began in 1914 when Henry Ford introduced the affordable automobile—a product that, at first, had no apparent demand. Because most people lived within walking distance of where they worked, the first automobiles were toys for the rich. But paved roads and the desire to escape the city enabled innovative real estate entrepreneurs to turn large tracts of obsolete farmland into residential suburbs and whole new towns. They built housing developments, shopping centers, and schools, creating a new life-style that has since become the world's ideal.

THE DEVELOPMENT OF THE SHOPPING CENTER BUSINESS

Of all the real estate innovations that emerged after the development of the affordable automobile, perhaps the most creative was the multitenant shopping center.

When these self-contained areas first began to sprout in the suburbs, many retailers were convinced that setting up shop cheek-by-jowl with competing merchants was a bad idea. They feared that the concentration of stores would make malls Hobbesian arenas of cutthroat competition in which neighboring retailers dissipated their energies, fruitlessly stealing customers from one another. And they feared that the shoppers would be exhausted and confused by the vast ar-

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[1] Data from the National Research Bureau Shopping Center Census, Automated Marketing Systems, Inc., Chicago IL.

[2] These figures do not take into account emerging alternative distribution systems. For example, Amway Corporation sales, estimated at approximately $3 billion in 1991, probably exceeded $4.5 billion in fiscal 1992.

[3] Actually, the overwhelming majority of today's farm product is produced by the 300,000 most productive farms, representing almost a 300-fold rather than a 30-fold improvement in agricultural productivity per person.

ray of products and services spread out before them.

As it turned out, shopping centers became one of the great marketing and distribution innovations of recent history. Rather than demoralizing shoppers, the profusion of choices offered by the modern mall energized them. In fact, as shopping centers increase in size, so does the volume of sales per square foot.[4]

THE SHIFT FROM A SUPPLY-DRIVEN TO A DEMAND-DRIVEN ECONOMY

One reason for the success of the original shopping center developers is that the centers were created simultaneously with the occurrence of the most significant economic phenomenon of our time—the shift from a supply-driven to a demand-driven economy.

In a supply-driven economy, economic output is limited by the amount of goods and services that can be produced from the available supply of labor and raw materials. This model of the economy prevailed from the industrial revolution to the 1930s, when the advance of technology eliminated the traditional inability of physical resources to produce all that everyone wanted. The distinguished economist John Maynard Keynes warned that we needed to adopt socialist fiscal policies and progressive taxation because when all Americans were able to purchase a four-bedroom home and a car, their needs would be satisfied, they would refuse to work, and the economy would stagnate.[5]

Keynes's theory of a stable consumption function (the belief that increasing affluence breeds complacency and oversaving, rather than increasing consumption) was wrong. Indeed, the very opposite of Keynes's belief seems true. Upscale consumer demand is insatiable. The more people earn, the more they spend; the more thy spend, the more they want, and the harder they seem to be willing to work to get it.

Only the very poor seem to have lost the incentive to work. For most consumers, demand is insatiable because of the constant shifts between two types of demand:

- *Quantity demand.* The demand for more of an already-owned item.
- *Quality demand.* The demand for a higher quality or different product once quantity demand becomes satiated.

For example, what an upwardly mobile young couple wants most after they purchase their first car (say, a Ford or Chevrolet) is a second car, so they don't have to share the single product (quantity demand). Once they have purchased their second car, they usually begin desiring a better car, a Lincoln or a Buick (quality demand).

Today, because technology has given society a virtually limitless supply of raw materials, the economy is driven almost entirely by the demand for new and existing products rather than their supply. And fortunately, technology has created an almost unlimited ability to supply the unlimited demand that has been unleashed. It is estimated that 95% of US gross national product consists of goods and services (the demand for which has been created by advancing technology) that we could literally live without.

In the United States, perhaps no single innovation has done as much as the suburban enclosed shopping center to stimulate consumer demand by teaching what new products and services are available. Consumers used to go shopping when they needed something. During the 1950s and 1960s, many would shop to see what they needed—what new products were available to improve their life-styles.

UNEMPLOYMENT AND UNUSED SHOPPING CENTERS

Today, because of recent advances in the technologies of informing consumers about new products (mass media) and in the technologies of efficient distribution of merchandise (automated distribution and inventory control), the economy no longer needs the number of retail stores and shopping centers that were built during the 1980s. Over the long run, efficiency of distribution will free up resources and retail employees and make them available for other productive activity.

In the short run, the economy must deal with escalating unemployment and vacant shopping centers. But the wage losses of the technologically displaced employees and the lost income of the vacant retail stores produce benefits for the other members of the economy. Consumers benefit from lower prices, the remaining employees benefit from higher wages, and the remaining owners receive higher returns on their investments. Ultimately, the improved efficiency permits the economy to grow as the unemployed per-

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[4] The typical 146,000-square-foot community shopping center averages just over $144 in sales per square foot. In contrast, the typical 360,000-square-foot regional mall averages $179 per square foot. From *Dollars and Cents of Shopping Centers: 1987* (Washington DC: The Urban Land Institute, 1987), pp. 21, 115.

[5] Paul Zane Pilzer, *Unlimited Wealth* (New York: Crown Publishers, 1991), p. 17.

sons find new jobs producing new goods and services and perspicacious real estate entrepreneurs develop new uses for the vacant shopping centers.

When technology causes the displacement of a worker by replacing the job with a machine or a better system, society as a whole does not become poorer. Because the function is performed by the machine, the benefit is distributed to the employer and the supplier of the machine. And, most important, society ultimately becomes richer when the displaced worker obtains a new job and society begins to produce new benefits.

But that is a long-range outcome, and as Keynes warned 60 years ago, in the long run we are all dead. Workers displaced by advancing technology believe that they will never find jobs, let alone new and better ones. Most unemployment today is in one sense or another the result of economic displacement. Displaced workers experience long, debasing periods of unemployment and often never return to positions that offer them equivalent returns.

Technology has made the US educational system obsolete. Today's economic and educational system assumes that the life cycle of a citizen is divided into two periods. The individual spends a certain time in school, then chooses a profession or trade and performs that function for the rest of his or her life. The system makes no provisions for displaced employees. Even when such employees have specific skills that could be of value to other employers or are capable of learning another trade, they discover that there is no efficient system for retraining and matching up displaced employees with potential employers. It took 50 years (from 1930 to 1980) to reduce the number of farmers from 30 million to 3 million. But when computerized fuel injection became standard in automobiles, it took only five years (from 1980 to 1985) to reduce the number of people in the carburetor business from 300,000 to less than 30,000. Similarly, it took only five years (from 1985 to 1990) for the jobs of more than 100,000 people who manufactured vinyl records to be eliminated entirely when digital CDs took the recording industry by storm.

Thus, although in the past the economy may not have needed an affirmative system for retraining technologically displaced employees and matching them up with prospective employers, it critically needs such a system today.

TECHNOLOGICAL UNEMPLOYMENT

That technological unemployment is a far more serious threat to the economy than cyclical unemployment can be seen by examining how technological unemployment grows. The calculation of the technological unemployment rate is analogous to the calculation of a property vacancy rate. Real estate professionals will better appreciate the nature of technological unemployment by considering this relationship.

Most real estate businesses consider a 5% vacancy level as equivalent to full occupancy. Five percent vacancies occur even in strong markets because of the time needed to market and make the physical moves involved in retenanting properties. For example, assume that tenants need at least two months to schedule their moves, and landlords require that time to make vacated space habitable. If the average lease turned over every 40 months, a landlord could not expect more than 95% occupancy (two months' vacancy for every 40 months).

Thus, an important factor affecting property vacancy is how long existing tenants stay put. If, because of the accelerating rate of technological change, commercial tenants tend to occupy spaces for shorter periods, stabilized occupancy rates representing full occupancy would decline. If the average lease term declines from 40 months to 20 months, the vacancy rate associated with full occupancy changes to 10%.

Analogously, most economists consider a 95% employment to be full employment because, even in a strong job market, 5% of employees are in the process of transferring from one job to another. This percentage used to be called frictional unemployment. But here again, the level of frictional unemployment can be altered drastically if the average length of time that employees stay on a job changes.

Today, the median length of time that an employee stays within a single industry (let alone with a single employer) has fallen to less than 7 years.[6] This means that over a working life of 45 years, on average, Americans change their entire careers almost six times. No wonder unemployment is skyrocketing!

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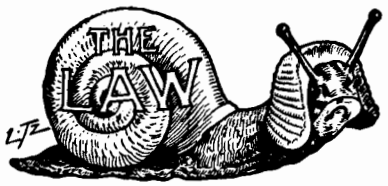
[6] In 1987, the median tenure for employees in all US industries was 6.6 years, ranging from 25 years for barbers to less than 1.5 years for food-service personnel. US Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States: 1991* (Washington DC: Government Printing Office, 1991), p. 653.

If the average career is seven years and it takes one year for an employee to retrain (and perhaps move to another city), full employment involves 12 months' frictional unemployment for every seven years (84 months) of employment. The full employment rate permits 14% unemployment. Recession then should show unemployment figures ranging from 17% to 20%. The only reason that the government does not report such figures is its peculiar method of calculating the composition of the labor force.

SUGGESTED UNEMPLOYMENT LEGISLATION

Society has yet to acknowledge the nature of technological displacement. At the beginning of the 1992 presidential campaign, the Democrats wanted to extend unemployment benefits from roughly 6 months to 12 months because the economy was recovering slowly; the Republicans countered that the economy was recovering rapidly and that benefits should be extended only to 8 months. Congress compromised and extended unemployment benefits to from 9 to 10 months (depending on individual state contributions).



If, as has been suggested, the overwhelming majority of the unemployed were thrown out of work by technological change, not the recession, both parties are misguided. These displaced employees need to learn to repair electronic fuel injectors instead of carburetors or to make digital CDs instead of vinyl records. Wiser legislation, rather than providing longer unemployment compensation periods, could have doubled unemployment benefits from 6 months' cash to effective 12 months' benefits, consisting of 6 months of cash and 6 months of training credits. Use of the training credits would be prerequisite to receipt of the cash benefits.

For example, a state that previously offered an unemployed person a six-month cash unemployment benefit of $150 per week now would offer the same cash benefit plus six months of "training stamps" worth $150 per week, both redeemable at any approved education or training center. The center would dispense the $150 cash benefit concurrently with the displaced employee's participation in mandatory educational courses.

The quality and the content of the privately provided educational courses would be determined by the free market. Newly unemployed people would choose the courses (e.g., résumé writing, improving writing skills, typing) that they believed would help them get a job before their six months of benefits ran out. (Most formerly employed people desperately want to get back to work.)

Even in the absence of government action, a massive economic opportunity awaits shrewd real estate entrepreneurs in virtually every American community today. This opportunity is developing centers for training, employment, and continuing education, or TEC centers.

THE TEC CENTER

In the 1967 movie *The Graduate*, a business executive gave the hero a one-word guide, the key to economic success: "plastics." Plastics and other advances have lowered production costs so much that between 80% to 90% of the cost of retail merchandise today is distribution cost. Manufacturing, materials, and labor typically represent 10% to 20% of most retail prices. The people making the most money today are those who are distributing products rather than manufacturing them. (As evidence, the current list of the richest people in the United States includes Fred Smith of Federal Express and the late Sam Walton of Wal-Mart.) The distribution of technologically displaced workers to schools and new employers may be the greatest business opportunity in two decades.

Corporations use approximately 5% of their space for recruiting, hiring, and training employees. In a metropolitan area of 500,000 people with 20 million square feet of commercial space, the 1 million square feet of training space could be more efficiently located in off-site specialized facilities where services (e.g., medical, video) could be shared, dramatically lowering employee recruiting and training costs. A declining shopping mall is an ideal location for such a TEC center. Here's how a TEC center would work.

Meeting Rooms

The primary tenants in the TEC center would be large employers or organizations that need regular meeting places to train and confer with their current employees. In the past, when large employers were manufacturers with large centrally located plants, getting everyone together

for a meeting wasn't a problem. Most large employment centers had auditoriums where management could assemble its employees. Today, most employees of large companies are located in satellite offices dispersed throughout the country. The logistics of getting employees together for training and management meetings is a business unto itself.

As the demand for meeting rooms has grown with the demands for continuing employee education, the traditional hotel locations are no longer adequate. Most hotels now price their space to limit the use of their meeting rooms to activities that bring them sales of room nights. Thus, almost every city has significant demand for meeting spaces leased on a hourly basis. Centrally located rooms with adequate parking, maintenance, and food-service facilities could be leased for long periods at certain times every day to large companies that would divide up their use within their own organizations. Some companies might even lease entire former anchor department store spaces as permanent training facilities.[7]

Recruiting Offices

A second group of tenants in the TEC center would be the recruiting offices of major employers in the metropolitan area. Grouping recruiting offices would benefit potential employers, just as Main Street retailers formerly benefited from the grouping of stores in large malls. Potential employees would be energized by the proliferation of choices rather than confused by them.

Anyone who doubts that employers would flock to move their recruiting offices into such a mall should consider that US companies spend millions of dollars each month advertising the availability and location of their recruiting offices in the employment sections of metropolitan newspapers. Typically, these offices are located at plants and in offices where they are relatively difficult for prospective employees to reach. Savings to employers in advertising costs alone might justify rents much higher than those in similar spaces outside of TEC center.

Moreover, many employers do not want prospective employees coming onto their premises before they have been screened. Employers could prescreen potential employees at TEC centers; prospective employees would no longer have to run all over town to submit a few applications. Lower-income and special-needs employees who depend on mass transit would benefit most.

Service Firms

Service companies that would lease the lower-traffic space throughout the mall could significantly increase the value of the TEC centers to both renting employers and potential employees. Such service companies would include medical examination firms, drug-testing firms, reference-checking firms, and skill-testing and training companies that teach everything from secretarial services to computer programming.

Ideally, the following scenario might occur: A prospective employee seeking an entry-level job with a company might spend a day or more visiting the local recruiting offices of four or five employers. When the candidate had successfully completed an initial interview, an employer might want him or her to have a physical or vision examination or perhaps a drug test—all available on the premises from third-party service companies. Or the employer might want to test the applicant's skills using a service firm also located on the premises.

Continuing Education

In addition to serving as a training center for existing employees and as a recruiting center for prospective employees, a TEC center could serve as an adult educational center for those seeking either to improve their skills or to train for alternative careers. Most community colleges and the continuing education divisions of four-year colleges already offer many such courses, but the schools are often poorly located and difficult to find. The community colleges, four-year colleges, and hundreds of private educational providers would probably flock to a TEC center where every job seeker and current employee is a prospective student. For all the reasons that a shopping mall is a convenient place to shop—product selection, amenities, parking, and location—a renovated shopping mall can become a ideal college campus for adults.

Other TEC Center Functions

The scope of services that could be offered at a TEC center is endless. In addition to the primary functions of providing training and employment services, TEC centers would be ideal locations for other innovative services like child care and training for the handicapped.[8]

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[7] Large spaces formerly occupied by anchor department stores could also serve as exhibition facilities for conventions and trade shows as well as for general entertainment.

[8] The dollar value of services provided in our economy today is approximately twice the level of retail product sales.

AN UNPRECEDENTED OPPORTUNITY

The current dismal state of the commercial real estate leasing and financing markets represents unprecedented opportunity for those who see the possibilities of TEC centers. Many current shopping center owners are increasingly receptive to new ideas because they recognize that their centers will not cycle back to economic profitability without help. Moreover, vacant or declining shopping centers can be purchased for cash at mere fractions of their reproduction cost. Developers that require outside financing may be able to persuade local communities to provide tax-exempt industrial development bonds for the new concept. After all, what project could be more beneficial to a community than a center whose primary function is to reduce unemployment and increase the earning capacity of its citizens?

In almost every community, the idea awaits the local private, or perhaps even public, entrepreneurs with vision. ■