

**Reinventing Retail Properties: Adaptive reuse strategies that make sense and create value**

by

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Submitted to the Program in Real Estate Development in Conjunction with the Center for Real Estate in Partial Fulfillment of the Requirements for the Degree of Master of Science in Real Estate Development

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## **Abstract**

There is currently more retail space per capita in the United States than in any other country, especially suburban mall space. Most American malls built throughout the twentieth century were designed to satisfy the American consumer's reliance upon the automobile and were subsequently strategically placed adjacent to major transportation arteries just on the outskirts of then existing communities. At the time of their construction, this was considered an economical strategy, as large swaths of land on the edge of town could be purchased at a significant discount when compared to land with closer proximity to increased population density; however, changes in consumer preference, along with population growth and now COVID-19, have all contributed to the continued downfall of the suburban mall.

How will these massive centers, now situated in prime locations, be able to reinvent themselves and add value to the community if the community sees no value in their present use? This thesis seeks to examine this question through a case study analysis of the adaptive reuse of Highland Mall in Austin, TX. Through an intricate public-private partnership agreement, 1.2 million square feet of dying retail was able to be master planned into a thriving mixed-use development.

Research material is derived from existing writings and personal interviews with relevant stakeholders.

The conclusion this work leads to is that public-private partnerships provide a solution to the capital intensive process of reinventing retail properties.

Thesis Supervisor: John Kennedy  
Title: Lecturer, MIT Center for Real Estate

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Thank you to my loving wife, Danielle Duarte, a saint who was somehow able to put up with my process throughout the research and completion of this paper.

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Thank you to the CRE class of 2020. COVID-19 was certainly unexpected, but I cannot help but think we will be stronger because of it.

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## **I. Introduction**

### ***Purpose of Thesis***

Of all the various real estate product types, from single to multifamily homes, office to industrial, or hotel to retail, none have undergone such a cataclysmic shift in value as the contemporary conception of “traditional retail.” Over the past forty years, retail of all shapes and sizes – ranging from small corner strip centers to super-regional malls and everything in between – has fallen out of favor and turned from darling to disdained in the eyes of institutional capital and “mom & pop” investors alike. At one time, retail power centers represented a center of community, a bazaar where citizens could come together to shop, dine, mingle, and be entertained – a place to spend the day. But no longer. What shall be the fate of these forlorn relics of the 20<sup>th</sup> Century? How will these massive centers, typically situated in prime locations, be able to reinvent themselves and add value to the community if the community sees no value in the present structure?

Before the commencement of this paper, traditional brick and mortar retail had already been in decline. At the time of this writing, COVID-19 is appearing to put the proverbial nail in the coffin on how the American people view traditional retail, especially regarding the suburban mall. Consumers now find it so much more effective and efficient to utilize the convenience of online shopping with the wonders of just-in-time, last-mile logistics and next-day delivery services, that there is hardly a need to venture outside the safety of one’s home to shop for anything other than fresh produce (and even then, that market is being challenged).

Along with historical context, this paper shall describe an exemplary case study of the death and resurrection of a typical suburban mall, namely the Highland Mall in Austin, TX. Through careful analysis of the process and procedures undertaken by the developers and additional stakeholders for the adaptive re-use of the mall, including a review of an intricate public-private partnership, this paper seeks to offer an example of true adaptive re-use, including strategies that can only be described as thinking “outside of the box.”

## **II. The Rise & Fall of the Suburban Mall**

### ***Brief Historical Overview of Retail***

According to Merriam-Webster's Dictionary, the definition of "retail" is: as a verb: "the sale of commodities or goods in small quantities to ultimate consumers;" as a noun: "the sale of commodities or goods in small quantities to ultimate consumers, *also*: the industry of such selling."<sup>1</sup> In this regard, it can be argued that the retail marketplace has been around since the dawn of civilization through the exchange of goods and services in or around any bustling city, sleepy village, or agricultural community. The marketplace offered a space where a diverse collection of people, specialists in their own trades, could come together to barter and exchange different wares.

When one thinks of marketplaces of antiquity, one might recall images of an ancient Middle Eastern bazaar or the Forum in ancient Greece. In either case, the impetus for the formation of a retail market throughout history is bolstered by similar prevailing conditions. Proximity to population clusters and the intersection of trade or pilgrimage routes remain tantamount.

The origination of the prototypical shopping district known as the American mall can be traced back to a vision set out in the early 1900s by J.C. Nichols, a prominent, yet controversial developer. At the time, land use zoning was not widely adopted, and Nichols looked at the world to see fast developing cities across the country where he believed streetcar suburbs were being "destroyed" by a lack of regulation and common local control. Nichols set out to create what he

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<sup>1</sup> "retail." Merriam-Webster.com

saw as a “complete community,” with the inclusion of special covenants as they had never been used before. Through this process, Nichols was able to effectively control the use of the real estate and therefor was easily able to create standardizations that he (and many others) believed would create a higher economic value to the community.

Nichols took these ideas and applied them to the development of the country’s first shopping district, when he opened the Kansas City Country Club Plaza in 1922. Nichols completely controlled the environment, from the architecture experienced by the shopper to the rent structure paid by the retailer. The Plaza created a sense of escapism for the consumer and thereby encouraging her to spend more money as if on vacation. Additionally, The Plaza had a social aspect that drew nearby residents to a central public marketplace. And thus, the twentieth century shopping mall was born.<sup>2</sup>

Consumer preferences have shifted from taking the family to the mall to now enjoying online shopping in the comfort of one’s own home. Additionally, discount stores such as Walmart and Target have such market saturation, with the ability to such a wide selection of goods and wares perfectly tailored to the daily desires of their target customer, that traditional suburban retail is simply unable to compete. Younger generations are tending to spend money on experiences, rather than on things. All ‘things’ considered, the retail environment of the future will be much different than that of the past.

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<sup>2</sup> Berman, Lee.



### **III. A Case Study in Adaptive Reuse: Highland Mall**

#### ***Highland Mall***

Highland Mall was Austin's first suburban shopping mall when it opened its doors on August 4, 1971. The mall's original footprint was 750,000 square feet, including three anchor tenants (Joske's, JC Penney, and Scarbrough's) with eighty smaller tenants and eateries, although it would eventually grow to a total of 1.2 million square feet.<sup>3</sup> Highland Mall was conveniently located less than six miles north of Austin, TX at the intersection of Interstate 35 and East Highway 290. For decades, the mall was an active part of the Austin community, but like many suburban shopping malls, it began to fall out of favor in the early 2000s. Soon, the remaining anchor tenants began to pull operations from the site, leading to contentious litigations between the various ownership entities. As the area declined, several key players began to take note.

#### ***Private Developer: RedLeaf Properties***

As described on their website,

*RedLeaf Properties is an Austin-based real estate developer focused on projects that deliver significant community benefit. Formed in 2009, RedLeaf takes a creative, entrepreneurial approach to development. We excel at working in partnership with public entities to create large-scale, mixed-use projects that include vibrant commercial districts and inviting residential neighborhoods. Our projects are known for creating*

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<sup>3</sup> Highland Redevelopment FAQ

*remarkable experiences, setting new standards for sustainability, and delivering tangible and intangible value for the full range of project stakeholders.<sup>4</sup>*

Prior to RedLeaf's formation in 2009, RedLeaf's Principal, Matt Whelan, had worked as Regional Director for Catellus Development Group. While with Catellus, Whelan led the \$2 billion public-private redevelopment of Austin's Robert Mueller Municipal Airport, a massive 700-acre master planned project that included a mix of uses ranging from civic/institutional, mixed use commercial, open space, and residential of varying density. From 2005 through 2011 Catellus was an affiliate of global real estate owner and operator, ProLogis. Due in part to several factors brought about by the onset of the great recession in late 2007, ProLogis eventually sold Catellus to private equity group TPG Capital in 2011. During 2009 however, Whelan saw an opportunity to replicate the successes achieved in the Mueller Airport community just a few miles away at the failing Highland Mall, and subsequently formed a new private development firm, RedLeaf Properties, LLC.

***Public Entity: Austin Community College***

As described on their website,

*Austin Community College (ACC) is a nationally recognized two-year college. ACC serves Central Texas as the primary gateway to higher education and technical training.*

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<sup>4</sup> <http://www.redleaf-properties.com/about.html>

*ACC's mission is to provide open door access to an affordable college education for those who want to earn a degree, learn a marketable skill, and advance their careers.<sup>5</sup>*

Across its platform of eleven campuses spread throughout Central Texas, ACC offers career and technical training, adult and continuing education, dual-credit, and university transfer options through over 100 programs in the following ten areas of study:

1. Arts, Digital Media & Communications
2. Business
3. Computer Science & Information Technology
4. Culinary, Hospitality & Tourism
5. Design, Manufacturing, Construction & Applied Technologies
6. Education
7. Health Sciences
8. Liberal Arts
9. Public & Social Services
10. Science, Engineering & Math

### ***ACC's Facilities Master Plan***

In 2005, several years prior to pursuing expansion through the redevelopment of Highland Mall, ACC retained Watertown, Massachusetts based Sasaki Associates to analyze existing and projected future use of ACC's campuses, while taking into account changing trends in regional

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<sup>5</sup> <https://www.austincc.edu/about-acc>

demographics and enrollment projections. Additionally, the analysis was commissioned to examine anticipated compliance levels with the Texas Higher Education Coordinating Board's (THECB) Closing the Gaps (CTG) initiative. CTG was created to address a trend of declining enrollment in higher education, coupled with anticipated population growth throughout Texas. The subsequent report, "Austin Community College District Facilities Master Plan," was completed and presented to ACC in 2007.

At the time, ACC operated seven campuses (Cypress Creek, Eastview, Northridge, Pinnacle, Riverside, Rio Grande, and South Austin) which were "physically smaller and more land constrained than the average community college."<sup>6</sup> Additionally, the majority of ACC's campuses lacked adequate space outside of the typical classroom setting, including amenities for attracting and retaining new students. The Facilities Master Plan was therefore also drafted to assist in suggesting possible solutions.

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<sup>6</sup> Sasaki 4

According to the Facilities Master Plan, ACC was obligated to meet the needs of a diverse and growing population. In total, the metropolitan service area’s population was expected to grow almost 50% over the next twenty years, from 1.5 million in 2005 to 2.2 million in 2025.<sup>7</sup> See Figure 1, below for total projected growth by county.

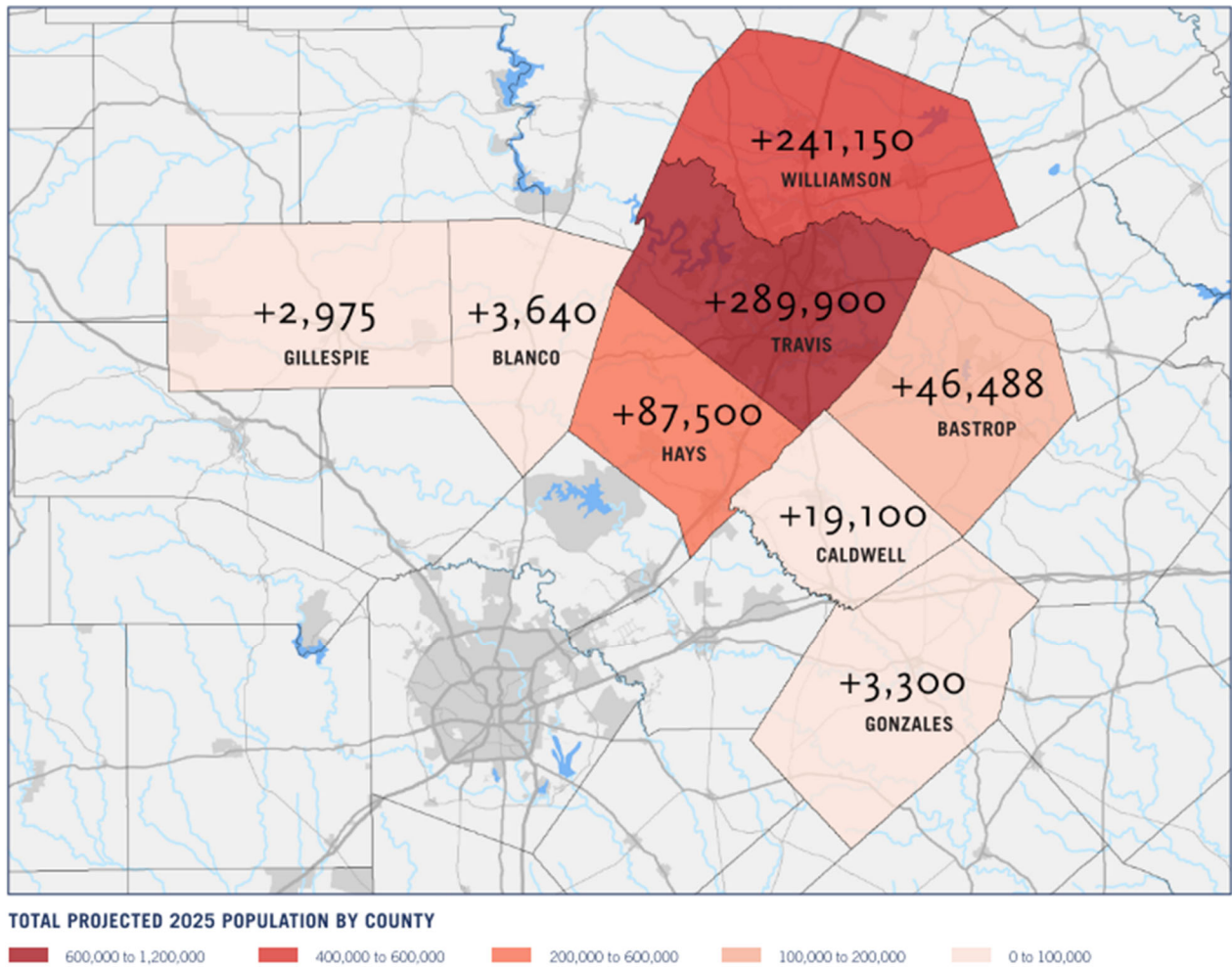


Figure 1: Total Projected 2025 Population by County (source: Sasaki 14)

<sup>7</sup> Sasaki 14

In addition to total population increase, demographic changes were also predicted. The state expected almost 400,000 additional Hispanic residents in the region, and further predicted that the average age of such Hispanic residents would be “markedly younger than typical migratory groups, thus generating a higher demand for ACC’s services.”<sup>8</sup> See Figure 2, below, for this projection from the Facilities Master Plan report.

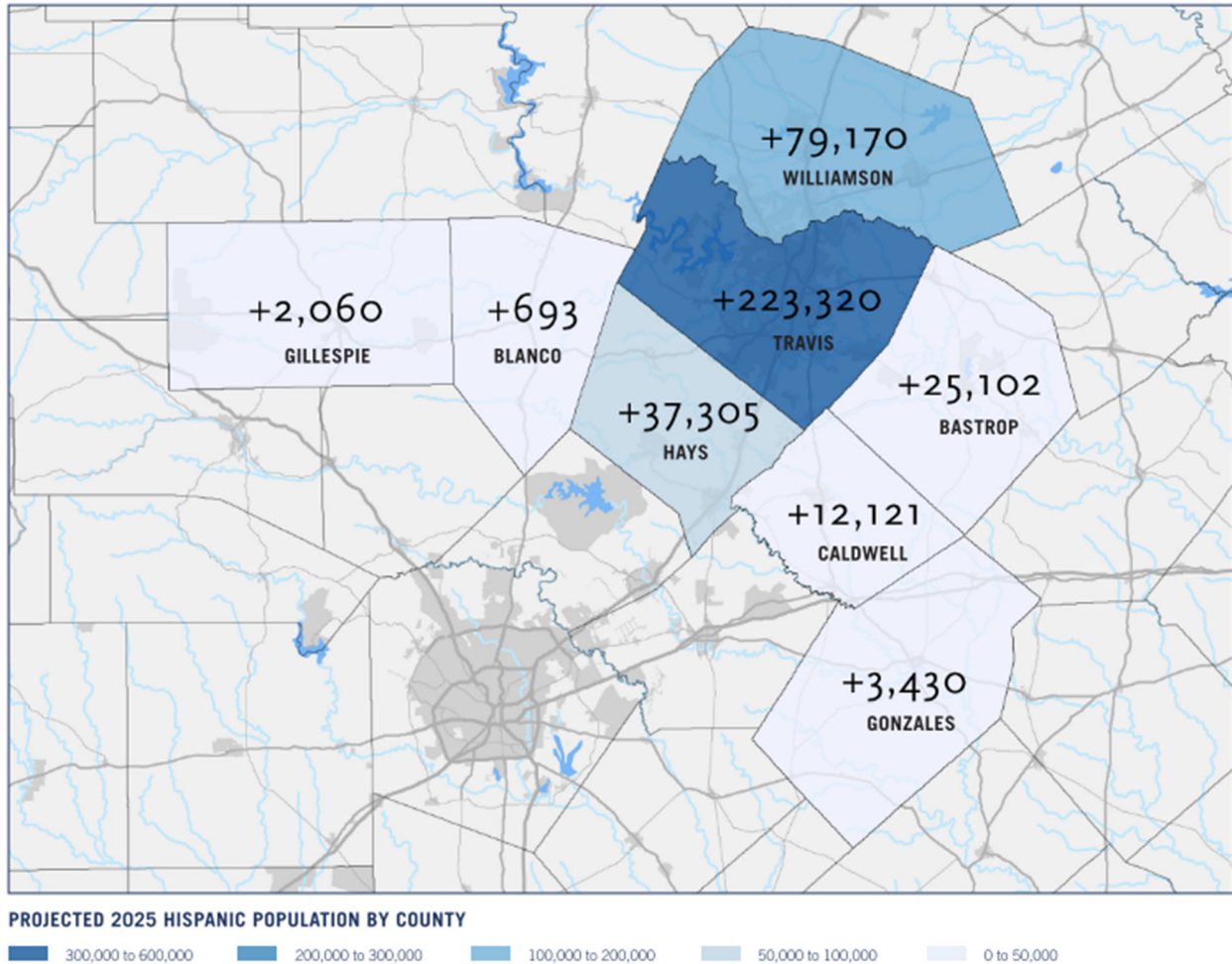


Figure 2: Projected 2025 Hispanic Population by County (source: Sasaki 15)

<sup>8</sup> Sasaki 15

Along a similar line, the Sasaki report determined there would be an increase of approximately 75,000 young residents between the ages of 18 and 24 over the next twenty years. “These projections indicate the region will become younger on average, and this will have serious implications for post-secondary institutions and the local workforce.”<sup>9</sup> See Figure 3 for population projections for ages 18-24 from the report.

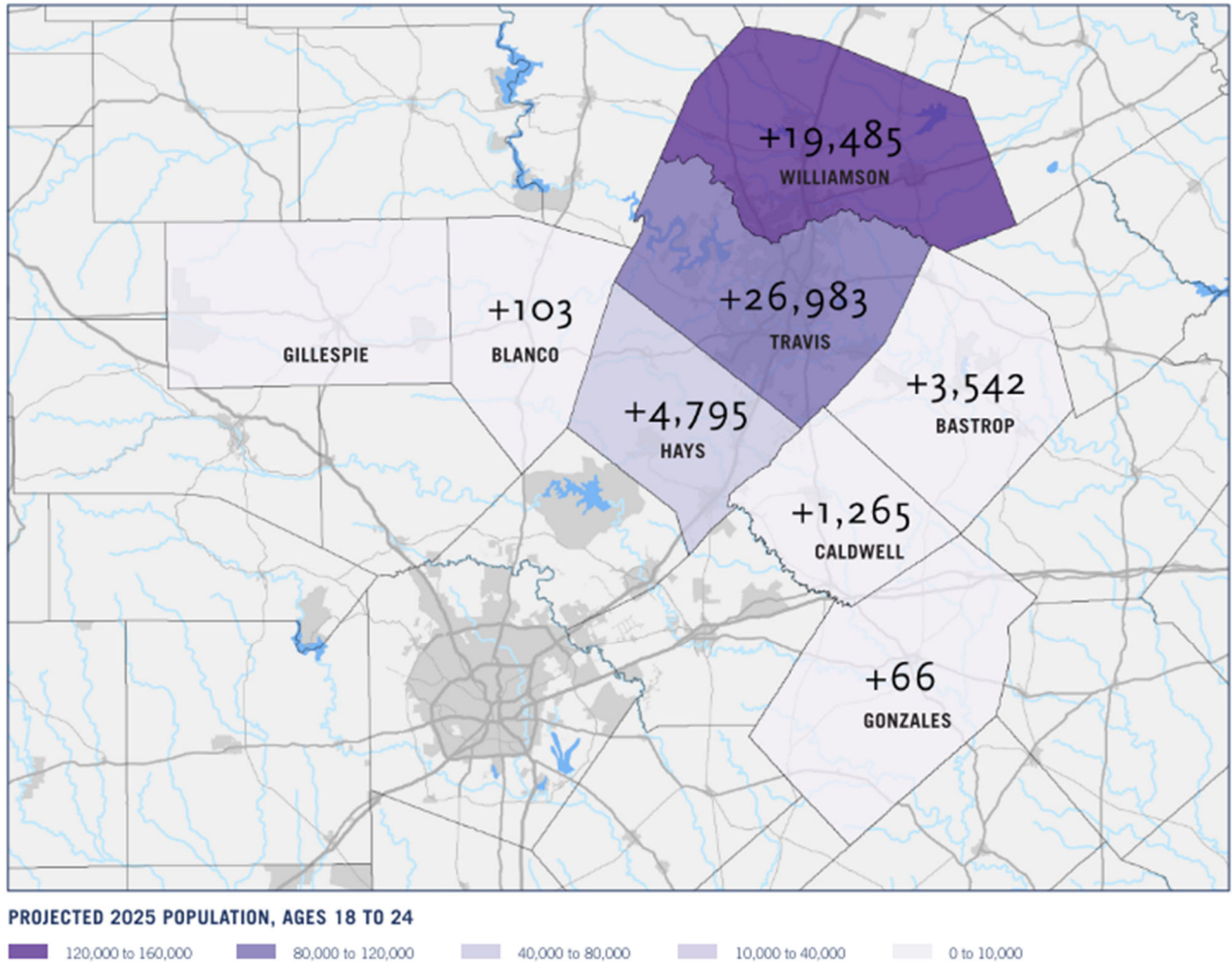


Figure 3: Projected 2025 Population, Ages 18 to 24 (source: Sasaki 16)

<sup>9</sup> Sasaki 16

These projected demographic changes resulted in ACC to revise its estimates of total enrollment.

*Based upon the 2005 CTG targets, ACC will look to enroll approximately 39,000 students by 2015, an overall net gain of 6,000 students over the next nine years.*

*Extending these targets linearly to 2025, ACC should enroll nearly 48,000 students, effectively increasing the student population by roughly 14,600 students, or 44 percent.*

*In order to meet its targets for minority enrollments, ACC would need to enroll about 11,000 additional Hispanic, African-American, and other non-Caucasian students by 2025. ACC should focus on expanding its instructional and student support space to accommodate this growth. Student support space provides a service to traditionally underserved populations that benefit greatly as their education continues well beyond classrooms and laboratories.<sup>10</sup>*

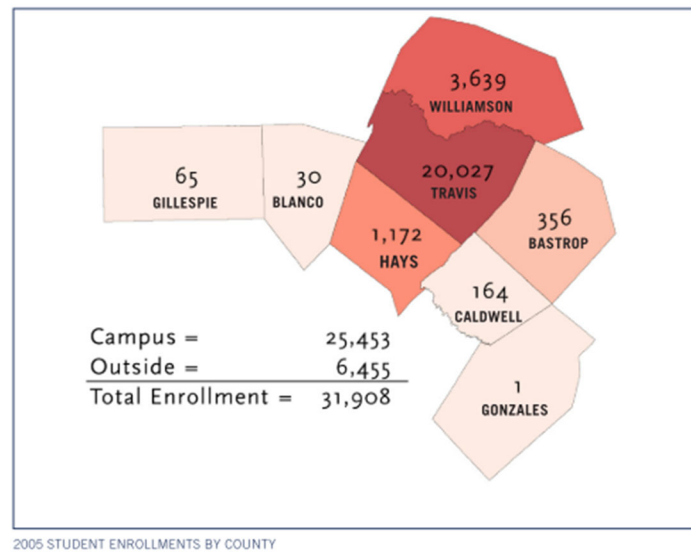


Figure 4: 2005 Student Enrollments by County (source: Sasaki 19)

<sup>10</sup> Sasaki 18



By overlaying the population growth expectations of the region, and taking into account estimated future student enrollment, the Sasaki report was able to project whether or not ACC would be on track to hit its Closing The Gap (CTG) targets. Below, see Figure 5 that demonstrates projected CTG target compared to current or increased market penetration. Given the existing campuses and current market penetration, ACC would fall short of the CTG targets unless additional campus space were to be constructed.

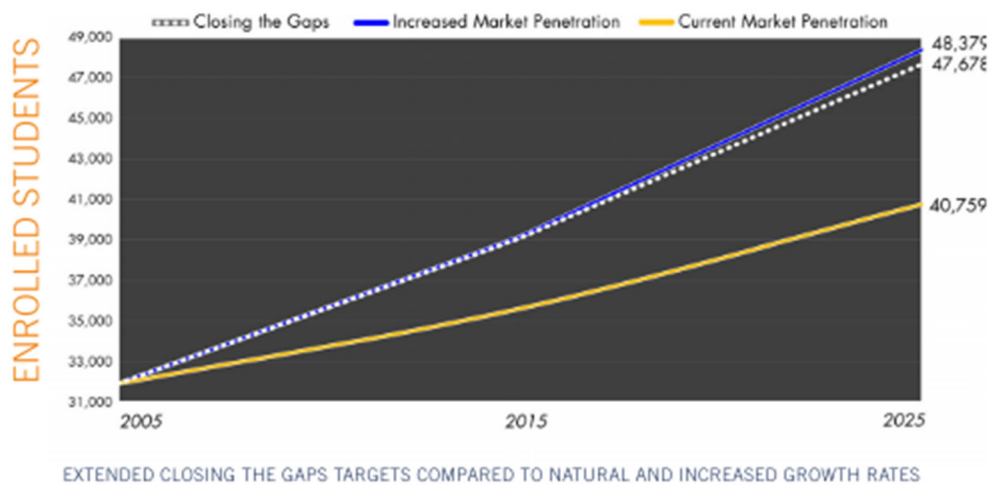


Figure 5: Extended Closing the Gaps Targets (source: Sasaki)

These factors, along with others discussed in the Facilities Master Plan led Sasaki to propose the following strategies<sup>11</sup>:

- Acquire sites in areas with lower land costs and high population growth
- Move towards a larger average campus size
- Limit structured parking due to cost

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<sup>11</sup> Sasaki 10

- Selectively expand existing campuses, gradually de-crowding them
- Be cautious about relying exclusively on distance learning programs to meet growth

In addition to the strategies proposed in the Facilities Master Plan, ACC's District Administrative offices, split between two locations (one of which was located immediately across the street from Highland Mall), were experiencing significant overcrowding. The structures were also aging with several major deficiencies that needed to be addressed. These issues prompted William Mullane, ACC's Vice President of Facilities and Construction, to begin an active search for adequate space.

### ***Public-Private Partnership***

By 2009, Mullane had several properties in mind for the expansion of campus and administrative facilities, but nothing that truly jumped off the page. During this time, Mullane had been aware of the continued decline of Highland Mall, specifically, the vacant Dillard's department store situated directly across the street from ACC's District Administration offices. Although interested in such a large, existing structure, ACC's board of trustees was hesitant due to the uncertainty and lack of control of the surrounding surface parking lots, and the remainder of the mall itself which was under multiple different and complicated ownership structures.

At the same time, RedLeaf had also been interested in acquiring the Dillard's site. Once it learned of ACC's interest, RedLeaf reached out to propose a joint-venture acquisition of the site through a public-private partnership. It was agreed that both parties would be able to benefit from such an arrangement due to the various synergies. While ACC had a desire to eventually redevelop and occupy the entire mall structure, they did not have a significant interest in the

outlying surface parking lots. RedLeaf on the other hand, had considerable interest in creating master planned communities, as evidenced by the recent redevelopment of Mueller Municipal Airport. Additionally, with the two parties working together, both could understand the specific needs and requirements of the other to ensure minimal friction as the project progressed.

Essentially, ACC and RedLeaf would be partners, rather than competitors.

### ***An Homage to the Past***

An analysis of the redevelopment of Highland Mall would be remiss without also looking back in time to the mid-nineteenth century. June 19, 1865 (Juneteenth) was an historic day in Texas when news of the Emancipation Proclamation (which freed the slaves), finally arrived in the state more than two years after its signing. Shortly afterward, in 1867, four African-American Baptist ministers came together to divide Texas into their respective congregational provinces. One of these congregations became the St. John's Missionary Baptist Association which subsequently purchased the farmland site for use as a focal point for educational, communal, and spiritual gathering. The first moderator of St. Johns was Reverend Jacob Fontaine. This site was subsequently the home to a church affiliated school, orphanage, and annual gathering called St.

Johns Encampment, where as many as 25,000 pilgrims engaged in parades, picnics, and prayers.<sup>12</sup>



*Figure 6: St. John's Encampment (source: Wren)*

The ACC redevelopment of Highland brings this rich (yet mostly forgotten) heritage of the African-American church site into focus with several prominent features. The original west entryway to the mall, once a double laned thoroughfare corralled in with a narrow line of trees before giving way to a sea of surface parking, is now Fontaine Plaza, a public park with communal gathering areas, mature shade trees, and an art installation. Jacob Fontaine Lane (comprised of two one-way streets) gently flanks the plaza on either side.

On the east side of ACC at Highland, what was once a Macy's parking lot will be re-imagined into St. John's Commons. A public park with over two acres of open space, St. John's Commons will create an inviting sense of place with its ability to host events ranging from student art

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<sup>12</sup> (Wren, Sebastian, 2016)

exhibits, social gatherings, and concerts. Once again, the site will be an active center for community gatherings and fellowship.

## **IV. Conclusion**

The retail landscape will continue to shift as consumer preference for products continues to turn more and more towards online shopping, fulfilled by last-mile and just-in-time logistics operations, which will inevitably lead to additional vacant retail – especially large, big box retail. While this vacancy may certainly cause a temporary drop in economic value, opportunity may be found in repurposing existing structures and increasing density on the existing surface-parking lots. Due to the significant size of the typical suburban mall, finding a suitable tenant can prove to be a major hurdle.

Developers may overcome such a hurdle by actively seeking out large, institutional users of space. Typically, such an institutional user may come from public entities in the medical, federal, and educational spheres. When done strategically, public-private partnerships can prove mutually beneficial for both the private developer and the public entity. As evidenced with the success of RedLeaf and Austin Community College at Highland Mall, the private developer may experience benefits in the form of lower cost of capital through public bond financing, lower holding costs throughout the development phase, and options timing, while the public entity can take comfort in having true oversight into how the surrounding area is developed to best suit its own needs.

## V. Appendix

### *Site Plans & Photos*



Figure 7: ACC Highland Purchase (source: ACC)



*Figure 8: Aerial of Highland Mall Prior to Redevelopment (courtesy of RedLeaf Properties, LLC)*





Figure 9: ACC Highland Master Plan (courtesy of RedLeaf Properties, LLC)



*Figure 10: Highland Mall, circa 1971 (courtesy of RedLeaf Properties, LLC)*



*Figure 11: ACC at Highland Mall, 2020 (courtesy of RedLeaf Properties, LLC)*



*Figure 12: ACC at Highland Mall, Complete Rendering (courtesy of RedLeaf Properties, LLC)*



*Figure 13: Former JC Penney's, now ACC Highland Phase 1*

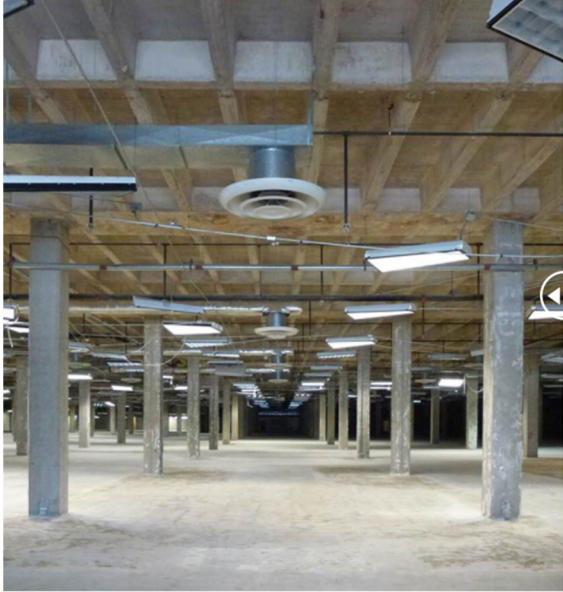


Figure 14: JC Penny - BEFORE (courtesy of BGK Architects)

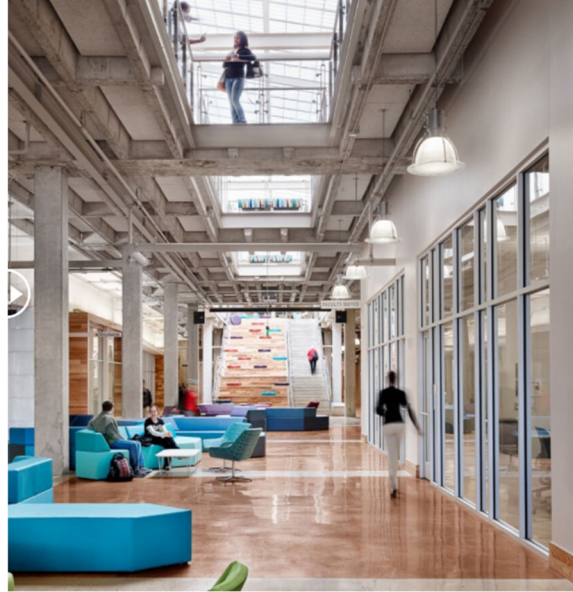


Figure 15: ACC - AFTER (courtesy of BGK Architects)



Figure 16: Former Mall Entrance (courtesy of dwg)



Figure 17: Fontaine Plaza (courtesy of dwg)



*Figure 18: JC Penny - BEFORE (courtesy of BGK Architects)*



*Figure 19: ACC - AFTER (courtesy of BGK Architects)*

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