Looking Toward the Mall of America after 1992
by John R. Borchert

More than four years have passed since the initial lavish proposals for the Megamall in Bloomington. For some time the project appeared to languish. While a few pushed it energetically, many found it hard to take seriously. Now the much-revised team of developers has done its homework, and the Mall of America is scheduled to open in the fall of 1992. One can still hear doubt and disbelief, but on the site at I-494 and Cedar Avenue, dirt is being moved in large quantity and in retail circles around the country the project is the subject of serious discussion.

If the Mall of America is built as projected, the recent public record tells us how to picture it when it is up and running, by the mid-1990s. At a cost of $625 million, there will be 4.2 million square feet of floor space, with 2.6 million square feet leasable—more than double the present Southdale mall but roughly equal to the total Southdale district, including Yorktown, Galleria, and other stores. There will be four major department stores, four smaller department stores, and 600 specialty shops—more than double the roughly 250 stores now in the entire Southdale area. There will be two or three acres of nightclubs and restaurants. There will be moves, a seven-acre theme park and gardens, an ice rink, and an eighteen or twenty-seven-hole miniature golf course—all under one roof. There will be ramp parking for 12,750 cars. And the annual sales will be approximately $1,100 million (in today’s dollars), generated by forty million visits, 30 to 40 percent by persons coming from outside the Twin Cities metro area.

*This description is based on published proposals and presentations at an "Update on the Mall of America," sponsored by the Twin Cities Sensitive Land Use Coalition at the Airport Hilton Hotel, Bloomington, October 25, 1989. The figure for dollar volume of sales is my interpretation, based on the number of visitors, department stores, and shops projected for the Mall of America (MOA), compared with the number of visitors, stores, and shops projected continued on page 2.*
If the Mall of America emerges as projected, conservatively it will be equivalent to about 1.8 of today's Southdale. It will differ from other major Twin Cities' malls in three important ways. It will be much larger, both in number of stores and volume of sales. It will have a substantially greater emphasis on restaurants and entertainment. And, of course, it will be all new.

The Scale of Market Penetration

By placing the Mall of America on the map of the Twin Cities and Upper Midwest region, one can outline roughly the market area needed to generate this projected volume of business. At the time of the 1987 business census, annual retail sales in the Upper Midwest region were approximately $50 billion. About one-eighth of those sales were in the Twin Cities seven-county metropolitan area. A combination of general merchandise, apparel, appliance, furniture, and restaurant trade (GAFR) account for about one-third of that total volume. The GAFR groups will account for most of the activity at the Mall of America.

In the metropolitan Twin Cities, inflation-adjusted retail sales grew at an average annual rate of 3.1 percent from 1979 to 1987. In the rest of Minnesota and the other states of the region, sales grew at 1.6 percent. A recent CURA study indicates that retail sales in the agricultural counties of Minnesota actually declined slightly from 1979 to 1986, while sales in the more urbanized, non-metropolitan counties remained essentially flat.* Based on those various trends, I have assumed an average annual inflation-adjusted growth rate of 3 percent for the metro area and 1 percent overall for the rest of the region between now and 1997—five years after the Mall of America is scheduled to open.

The trade area of the completed mall would spread out in concentric rings across the region. I have postulated sales volumes for the Mall of America (MOA) which might plausibly be generated from those rings.

At the core of the trade area would be the shoppers who live nearer to the mall than to any of its competitors (Figure 1). That area of retail dominance would extend across eastern Bloomington, Mendota Heights, Eagan, and neighboring cities. It would be carved from portions of the present areas of dominance of Southdale, Burnsville Center, and downtown St. Paul, along with lesser centers at Highland and Southtown. I estimate that business captured from the 1992 sales of those most competitive neighbors could account for about 26 percent of projected MOA dollar volume.

Cannibalizing 9 percent of the total general merchandise, apparel, appliance, furniture, and restaurant trade (GAFR) from downtown Minneapolis would generate another 5 percent of the projected sales at the MOA. Capturing 6 percent of all the rest of the seven-county metro area would generate another 25 percent of the projected sales.

Reaching beyond the metro area (Figure 2), diversion of 5 to 6 percent of GAFR retail sales in the remainder of the Upper Midwest core area—from St. Cloud to Eau Claire, Mora to La Crosse and Mankato—could generate another 13 percent of projected MOA sales. Siphoning 3 to 4 percent of similar sales from all the rest of the Upper Midwest—Montana to Upper Michigan, Rainy River to north-central Iowa—would add another 24 percent of projected sales. Attracting tourist-shoppers from the rest of the world could perhaps supply the remaining 7 percent. Thus 100 percent of the projected sales would be achieved. While those percentages of trade cannibalized—especially from the outer rings—might not look large, they represent very significant shares of both average profit margins and growth.

This compilation of the trade area appears to be in line with the hopes of the developers. For example, an executive of the developing company told an audience in Bloomington recently that he expects the MOA to capture half of a projected $1.5 billion growth in the Twin Cities' retail shopping goods sales by 1992. If I use the developers' projections of overall growth, the penetration I have postulated would indeed generate approximately that volume of revenue from the metro market. Published claims anticipate that up to 40 percent of all visitors to MOA would come from outside the metro area. By comparison, the penetration I assume indicates 42 percent—about the same share. I have postulated these penetration figures only to show where the volume of sales at MOA could be...
Impact of the Mall

If this is a reasonable description of the projected mall and its trade area penetration, what is its potential impact in the Twin Cities and the Upper Midwest? If the Mall of America succeeds in terms of its own projections and estimates, the sales it siphons from the vulnerable competitive centers in the 1990s could exceed the average profit margins in their lines of business. The sales it cannibalizes from the rest of the metro area and region would be a significant fraction of average profit margins. Presumably, vacancy would increase and maintenance would suffer. The period of “adjustment” could last three to eight years before overall growth compensated for the overbuilding. If the MOA captured the developers’ anticipated half of all growth, the period of adjustment could be twice as long. On the other hand, if competition stiffens—which appears certain at least in the Twin Cities and Chicago areas—and shopping habits don’t change as much as the developers expect, the MOA could suffer prolonged debilitation, as is already the case for two of the less successful regional malls today. A mix of those two outcomes would leave all centers somewhat sick for five years or longer. The illness would be aggravated if real growth falls short of developers’ forecasts, which certainly could occur.

Does All of This Matter?

It was argued in the legislature that it doesn’t matter, insofar as the state investment in new roads and bridges connected with the project is concerned. It was taken as a fact that the highway improvements would have been needed soon in that part of the metro area in any case. It could be argued that such a large public and private investment to overbuild the region’s already relatively classy, productive retail and entertainment complexes is low priority at this time. But the private investment is coming mainly from elsewhere in the world. Hence it surely could be argued that what those investors do with their money is their business.

At the same time, there are some aspects that concern our long-range public planning. If the MOA is successful, it appears that it will reinforce and accelerate the long-term regional shift of retail business away from small towns to the larger trade centers in general and to the Twin Cities area in particular, with accompanying implications for statewide highway system planning. Within the metro area, by developing a major retail component for an airport-oriented “downtown,” the MOA would greatly increase political pressure not to move the airport. The mall project has already set a record for legislative rearrangement of priorities for large-scale commitment of state highway funds in response to a major private promotion. It is likely to bring pressure for further public improvements to reinforce the centrality of downtown Minneapolis—for example, to get on with regional rapid transit, or to cover some blocks of downtown streets in the fashion of Toronto, Milwaukee, Denver, and the MOA developer’s own home project in Indianapolis. It will reinforce the pressure to develop coordinated, mall-type management for the downtowns. And it will accelerate and redirect geographic shifts in local property tax bases within the Twin Cities area.

If the Mall of America is less than successful, given its heavy emphasis on entertainment and tourism, one obvious way to shore up income would be pressure for casino gambling—at least there, if not statewide. The mall’s sheer size and arguable importance to tourism could well result in pressure on the statewide community to bail it out.

If MOA results in five years or more of widespread marginal performance in an over-built retail plant, it would increase the pressure for tax concessions in that sector of the state’s economy—exactly opposite to the intended effect of the development. In short, the results suggest three possible patterns in the 1990s. Success, with an accompanying diversion of retail sales volume from other centers that would be large enough to shift a substantial number of stores elsewhere from profitable to marginal or worse, until growth eventually catches up with the overbuilding. Or losses, with subsequent pressure for direct or indirect public help. Or limping, partly successful, sharing the pain with the rest of the relaxed retail sector in the region until regional growth eventually catches up.

Regardless of the outcome, one can easily think of issues that could raise calls for future special sessions of the legislature. Meanwhile, the Mall of America will become one more piece of the Minnesota (and western Wisconsin) metropolis which is inexcusably enlarging and replacing the cities inherited from the bygone railroad era. And it will be a monument to a particularly interesting chapter in the tumbling process of metropolitan planning and development.

Figure 2. Zones in the Mall of America’s Postulated Market Area

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