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Where a Shopping Mall Used to Be, an Opportunity Arises.

The decline of malls in America can mean lost jobs and lower tax revenues for states and municipalities — but not always.

There are threats everywhere to state and local revenues. To that list add this one: The golden age of malls in America seems to be well and truly over. Several of the country's 1,000 enclosed malls and a chunk of the nation's 47,000 shopping centers have either shut down or are emptying out.

Overall investment in retail property assets declined nearly 20 percent last year. Vacancy rates in community shopping centers increased in 30 of 77 U.S. metro areas last year. Rents, which usually increase roughly at the rate of inflation in healthy markets, decreased.

These trends may accelerate. In recent months, department stores such as Sears and Macy's — bulwarks of shopping malls — announced plans to close hundreds of stores nationwide. It will surprise few that this change in the fortunes of shopping malls comes in the wake of the accelerating growth of online shopping. Amazon is expected to surpass Macy's as America's top clothing seller this year, according to Cowen Group Inc., a financial services firm.

The fiscal implications of mall closings for states and localities are significant. Not only are jobs, corporate income tax revenues, and sales and use tax revenues foregone, but so are property taxes. "If a mall closes or goes into decline, you're going to see declining property values in the area," says Arthur Nelson, a professor of urban planning and real estate development at the University of Arizona.

The Fort Steuben Mall in Steubenville, Ohio, is an example of what it looks like when a mall starts to fail. A former steel town on the edge of the Ohio River, the community is facing a double whammy of store closures: On one end of its mall is an empty space that used to house a Sears; on the opposite is a Macy's, which is set to close this spring. The mall went into foreclosure in February 2016 and was sold to the bank that held the mortgage — for roughly two-thirds of its previously estimated value.

But the depopulating of malls doesn't need to be a negative. One city leader says he sees a significant upside: "It can help hasten the eventual redevelopment of the entire mall site. It's potentially a big positive for the city's tax revenues as it makes much closer the day where redevelopment proceeds [start pouring in]."

I have watched this play out in my own city of Alexandria, Va., where the Landmark Mall has both a Sears and a Macy's as tenants. Seventeen years ago, the mall as a whole and the Sears store that anchored it generated $1.25 million in real estate taxes. Today, they bring in only about $500,000 in real estate taxes. Moreover, to aggravate the fiscal dilemma, the reduction in revenues from sales tax, dining tax and other business taxes has also been dramatic. And now Macy's has announced it is closing its Landmark store. As Alexandria Vice Mayor Justin Wilson told me, "There is no clearer demonstration of the city's financial challenges than the predicament that currently faces Landmark Mall."

But Alexandria is seeing and seizing an opportunity. It has rezoned the site and has encouraged the mall's owner, the Howard Hughes Corp., to move ahead with its plan to transform the enclosed portion of the mall and the Macy's parcel into an open-air urban village that has stores, restaurants, housing and entertainment venues.

Wilson notes that the passing of the glory days of malls ought not to be a dirge for times gone by, but rather an opportunity to latch onto a nationwide trend of returning to cities' historic urban centers both to live and to start businesses.

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