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Costco Targets Mall Space to Expand Its Reach

By KAREN TALLEY

NEW YORK—**Costco Wholesale Corp.** is taking on the role of mall anchor, moving into spaces once occupied by department stores that for decades reigned as the retail centers' big draws.

The largest U.S. wholesale-style retailer plans to speed up steps that will in essence put its minimall type stores into shopping centers, its co-founder and chairman, Jeff Brotman, said in an interview.



Associated Press

Customers shop at a Costco store in Mountain View, Calif., in May.

Costco's stores, which can be the size of three football fields minus endzones, or about 143,000 square feet, carry about four thousand items, ranging from tires to polo shirts to pigs' feet. Newer clubs tend to be larger, with Costco's biggest club a hefty 205,000 square feet.

In expanding into malls, Costco, in order to keep its general size, will either fit into the space contained by a large department store or use the space from a smaller one and add additional footage.

So far, Costco, based in Issaquah, Wash., has dipped its toe in the water when it comes to locating stores in malls. But coming off the heels of last week's announcement of three-mall based

Costcos—two to be built in what were traditional department stores—Mr. Brotman said his company is looking at several other sites, including a mall in Trumbull, Conn., to open Costco membership-warehouse clubs. The approach dovetails with Costco's continued expansion of off-mall sites, which already number over 400 locations in the U.S.

Credit Suisse retail analyst Michael Exstein said Costco's stepping into malls "is representative of a longer term trend that is developing...As consumers' needs change and department stores continue to lose share, shopping centers will look to Costco and other high-traffic formats as valuable anchors."

Costco's approach is a bit different from the one being taken by Wal-Mart Stores Inc., which also wants to expand in urban areas and has talked about reducing store size as an approach. Costco wants its mall stores to generally be the same size as its nonmall stores and carry the same product array.

"Our preference is to never be in a mall or by a mall," Mr. Brotman said. "But in metro areas there just is not that much land, and we still want to expand. We will continue to penetrate areas" using the mall approach.

It doesn't hurt for Costco—which has clubs in urban, rural and metro areas—that malls are still losing tenants nearly three years into the economic downturn, and the warehouse club has been one of the most relatively successful retailers during the period.

"With no meaningful department-store consolidation and a lot of weak players out there, mall owners are starting to think of alternatives to the traditional," Mr. Brotman said.

A number of malls have been struggling during the recession as some of their anchor tenants, mainly large department stores, gave up their space because of lack of business.

The club is among the biggest retailers to buy available mall space, but it is not alone. Apparel retailers like Forever 21 Inc. and Hennes & Mauritz AB's H&M, for example, have created larger-format stores to fill mall anchor space in the last couple of years.

Costco does have an ability to deliver, said Randy Brant, executive vice president at mall owner Macerich Co., which has Costcos adjacent to two of its malls.

"Their average store does over \$100 million a year in sales and there aren't many department stores that can do that, especially in this environment," Mr. Brant said. "The only downside is typically a customer making large purchases at Costco will get in their car and head home."

According to company executives, customers do buy in bulk, often spending several hundred dollars on a single trip to a Costco. The retailer's latest plans are to gut a former Dillard's Inc. location in a Sarasota, Fla., mall and put in a 145,000-square-foot warehouse club. In Wheaton, Md., Costco will occupy the second level of a former Hecht's department store site and create a 148,000-square foot store. Hecht's was owned by May Department Stores, which merged with Macy's Inc. in 2005. The former Hecht's building will be demolished and additional space will be created to accommodate the Costco.

The challenge for Costco can be making, or finding, room for stores that can run 150,000 square feet or more. Costco, which posted a 6% rise in July sales, reported annual sales of \$70 billion for its last fiscal year, which ended in August 2009.

In Los Angeles, an approximately 146,000 square foot Costco is planned to anchor the proposed Village at Westfield Topanga, a mixed development of retail, hotel and office space. The developments are being done with mall owner Westfield Group.

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