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What is Happening to Commercial Malls:
Evaluating Contradicting Opinions

An honors thesis presented to the
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What is Happening to Commercial Malls: *Evaluating Contradicting Opinions*

Abstract

The retail environment has been changing in recent years and this has had profound impacts on American shopping malls. This paper will examine the dying mall phenomenon and compare and contrast the differing opinions of major news outlets. This study will identify and analyze the driving forces of change including the recent shift in demographics, the rise of the bargain hunter, the power of millennials and the desire for experiences amongst consumers. It was discovered that A rated malls are thriving whilst C and D rated malls are in danger of dying out. The more successful malls are those that offer consumers experiences in addition to shopping and have turned themselves into destinations. The least successful are those that have failed to modernize and adapt to the changing retail environment.

INTRODUCTION

Retail shopping malls have been a staple for the American buying public for many years. The question is: are things about to change? Will malls no longer be the center of the American shopping experience? Analysts have contradicting opinions as to whether or not malls are “dying” and cannot agree on possible explanations. Many are quick to cite the Internet as the primary driver of change in the retail landscape perhaps because it seems to be an obvious answer. Instead of seeking out one single factor of change analysts should be looking broader and deeper and consider the possibility of numerous contributing factors. The goal of this study is to clarify the dying malls phenomenon by explaining which types of malls are in danger and identify and examine possible causes.

PATHWAY OF MALLS

Following World War II, American shopping malls became the centers of suburban communities and symbols of the new age of consumerism. Today the United States has the largest consumer market in the world, illustrating that consumerism has grown and is thriving.

Why then have no enclosed malls been built in the U.S. since 2006? This negative correlation between consumerism and malls has sparked a media frenzy on the “dead mall” phenomenon. Many malls across the country that were once bustling centers have now shut their doors permanently. People want to know why malls are closing and how shopping habits have changed over the past decade. News outlets have played into this curiosity by stating whether or not they believe malls are actually dying and then providing evidence to back up their conclusions. Some websites and authors believe that malls are going extinct, while others believe they are thriving. Given such differing opinions seen in the media, it seems there is no one answer to this baffling question. Instead of looking at the status of malls as a black or white question, a better solution is to further break down the contributing factors.

Unlike the causes of the dead mall phenomenon, the definition of a dead mall is widely agreed upon. Dead malls have high vacancy rates, low levels of consumer traffic or are dated or deteriorating in some manner (www.deadmalls.com). Retail experts consider malls with vacancy rates of 10 percent or higher to be troubling while those with rates of 40 percent or higher are considered dying (Schwartz, 2015). The loss of an anchor store will often lead to increased vacancy throughout a mall. Anchors are often the largest store or stores in the shopping center and help draw traffic into malls. When anchors like Macy’s, Sears or JCPenney’s close, it is difficult for malls to find another store to fill these tremendous spaces. If a single department store accounts for a relatively high percentage of the total retail space in a mall and that store closes, the vacancy rate in the mall instantly increases. This often leads to a domino effect with other stores in the mall as a result of decreased foot traffic and the possible downgrade in the rating of the mall.

ENDANGERED MALLS

Malls are given a quality grade, or rating from A++ to D. The A group is comprised of high-end malls that are thriving whereas B malls are stable and may be considered the “best mall in a small market” or the “third best mall in a five mall town” (Maheshwari, 2015). C malls are troubled malls where sales are declining, some major chains are leaving and foot traffic is often low. Worse than C malls, D malls are often marked for death and are well on their way to permanent closure. Green Street Advisors is the largest issuer of mall ratings and discloses this information in an annual report titled “U.S. Mall Outlook.” They report hundreds of variables including geographic locations of malls as well as sales per square foot. These are the factors that help determine which letter rating a mall should receive. A malls are located in areas with the highest incomes and are flooded customers who have benefitted from the recent recovery of the economy. As one moves down the rating spectrum, the populations of the malls in those given areas aren’t spending as vigorously. These lower rated malls are left battling for dollars from the majority of Americans whose income has either flat lined or declined since the financial crisis of 2008 (Maheshwari, 2015).

The financial crisis had a larger impact on department stores like Sears, JCPenney’s and even Macy’s than it did on higher end chains like Bloomingdales, Nordstrom and Lord & Taylor. Sears has been in business since 1932 and has always catered towards the middle class. As the middle class continues to shrink, so does Sears. Customers who were once looking for value are now hunting for bargains and have shifted from shopping at Sears, to shopping at Walmart and Target. Sears stores, unlike Walmart and Target stores, are often found anchoring malls. When malls were gaining popularity in the 1960’s and 1970’s and Sears’ business was thriving, their stores drew foot traffic into malls and were true anchors. These oversized, concrete buildings

have not been updated in decades and now seem outdated and unattractive to consumers. Sad looking grey concrete buildings are unlikely to be anything more than a walk-through to get to the rest of the mall for younger shoppers. Sears has shut down over 300 stores since 2010 and continues to lose billions of dollars each year (McClelland, 2014). JCPenney is facing similar issues and is struggling to modernize and stay afloat. Malls with these stores attached tend to be in lower income areas and tend to receive lower ratings. Many believe that these are the malls that are in the greatest danger or are already “dying.”

MORE PEOPLE WANT TO PAY LESS

The current era in retail is defined by affordable fast fashion and deep discounting. Stores like Macy’s, Kohl’s, and JCPenney continue resorting to promotions and discounting in an attempt to keep customers interested. Over the years, this strategy has arguably conditioned consumers to pay less and now retailers are struggling to convince them to spend more (Schlossberg, 2016). Younger shoppers prefer to spend less on clothing at stores like Forever 21 and H&M, and have more money to spend on technology and experiences. This shift in spending is making it more challenging for full price retailers to stay afloat. TJMaxx and Nordstrom Rack’s discount model is thriving and is successfully luring in consumers. Since these stores and outlet malls all sell brand name merchandise at a fraction of the cost, consumers have little reason to ever pay full price anymore. Also, thanks to the internet, price transparency has drastically increased and consumers can comparison shop in seconds. The number of options for where to shop, when and how is greater than ever and malls no longer have a captive audience.

There is a clear separation between traditional shopping malls and outlet malls both physically and in atmosphere. Outlet malls are filled with discounted stores and shoppers alike.

Nearly every store you can find in a traditional mall you can also find in an outlet location somewhere in the U.S. Some brands like accessories giant Coach, have a large majority of their sales coming from their outlet stores. Even Macy's is jumping on the outlet bandwagon with its new Macy's Backstage stores. These stores are still in the testing phase in the New York Metro area and are the Company's attempt to compete on the same level as TJMaxx and Nordstrom rack. This move by Macy's is indicative of a changing retail landscape. For Macy's, a chain that has been set in its ways for many decades, to pilot a new type of store is a big deal. It indicates to some extent that the company is finally attempting to adapt to modern trends in retail. They are realizing that although their original model has worked since 1858, it may end up leading to their demise if they do not take action.

Existing retail malls that are struggling should consider bridging the gap between themselves and outlet malls. Destiny USA, New York's largest shopping mall, has done exactly this. This mall is anchored by Sears, Macy's and JCPenney and includes a combination of both full priced retail stores and outlet, or "factory" stores. The lower end anchors are accompanied by the outlet stores of their higher end counterparts like Saks Fifth Avenue and Nordstrom. This balances out the rating of the mall and draws in a wider variety of consumers to the mall. The wider the variety of customers entering the doors, the more appealing the retail space will be to other businesses like restaurants and entertainment companies. Vacancy rates remain low when the mall is doing well and there is plenty of foot traffic. Destiny USA is often referred to as a destination rather than a shopping mall because it is much more than that. Carousel Center got a name change and some major upgrades to transform it into Destiny USA. This is a great example of one way to modernize and perhaps even save an average rated mall.

“THE EXPERIENCE FACTOR”

Although destination malls are exciting and define our idea of a more modern mall, they are not exactly a new concept. The Mall of America, located in Bloomington, Minnesota has been around since the early 1990’s. It has over 400 shops and includes hotels, an amusement park and even an aquarium. This all-encompassing mega center attracts 42 million visitors annually which is roughly 8 times the population of the state of Minnesota. Malls this size will probably never be the norm. If the majority of malls were like the Mall of America, then it would not be unique anymore. It is a tourist attraction just like Destiny USA which is located in Syracuse, New York, a far less popular destination than New York City.

The company behind the Mall of America, Triple Five, announced plans on March 5th, 2016 to build the nation’s largest mall in Miami, Florida. This 200-acre attraction would include a sea lion show, a Legoland, submarine rides and a ski slope. American Dream Miami, as it will be called, will cost \$4 billion to build and employ 25,000 people once opened (Hanks, 2016).



American Dream Miami, if it ends up being built, will be one of the first malls built in the U.S. in nearly a decade. Class A malls often end up being tourist attractions and this one will follow suit. Tourism in Miami is booming and many believe the area is under retailled. Although this may be true, many urbanists sounded off on Twitter about their thoughts on the project. “Miami Mayor’s Economic Fix: Build America’s Biggest, Tackiest Mall,” and “How to become the laughing stock of the nation – build the largest mall and add a ski slope” were just some of the many negative responses to American Dream Miami. These people seem to agree that malls are not modern and are certainly not what we need more of. After all, articles in the New York Times and other major news outlet have reported that malls are dying, so why are we looking to build more?

SHOPPING MALLS AREN’T ACTUALLY DYING

Building new malls is a great idea as long as they are not replicas of the old, outdated ones. The concept of making malls destinations again by offering consumers more than just shopping is a welcomed one. One could argue that the malls built in the 1970’s were destinations too and that this is not a new idea. This is true, however how has society’s idea of a destination changed since then? Back then, all-inclusive malls had post offices and churches whereas now they have unique restaurants, entertainment venues and outlet stores. Malls have evolved with society and they need to continue evolving otherwise they will wind up abandoned and “dead.”

Some argue that the photos of creepy, abandoned malls that have gone viral on the Internet are misleading. The wildly popular New York Times article “The Economics (and Nostalgia) of Dead Malls,” published on January 3, 2015, features a photo of the Owings Mills Mall in Maryland looking closed, eerie and awaiting demolition. It identifies this mall as one of



the 3 percent of the nation's D malls with vacancy rates of 40 percent or higher (Schwartz, 2015). When one sees that photo, reads that statistic and reads the rest of the article he or she is most likely going to buy into the dying malls phenomenon. Although the picture is real and the statistic is true, if you invert the facts, you get a story that looks very different. If 3 percent of malls are dying, then 97 percent of them are not. Going beyond the D category, in total the Times article reported that 20 percent of malls are in trouble. Even if this is true, then 80 percent of them are still healthy. Most malls are owned by a few publicly traded REITs and these big players who specialize in higher-end malls continue to do well. The top 3, Simon Property Group, General Growth Properties and Macerich, have all seen rises in stock price since 2012 (Hurley, 2016).

Green Street Advisors says class A malls should perform at a high level for years to come while the class C and D malls have a clouded future. Although the Internet is a contributing factor in the shifts in the retail landscape, it is more likely caused by changes in demographics. Internet sales are often exaggerated because according to the International Council of Shopping Centers, online shipping still only represents 7 percent of retail sales. In

terms of demographics, the middle class was hit hardest by the 2008 recession and continues to slump and shrink. This combined with population decline and income inequality leads to a more dramatic effect on retail than e-commerce. Income inequality needs be bridged in malls. Malls that cater only to the 1% cannot survive unless they have a broader appeal. Catering only to one demographic is simply too risky as we have seen with the decline of middle and lower class malls. The 1% is not shopping at these malls and the middle class shoppers are not shopping at the malls aimed exclusively at the 1%. Malls need to find a healthy combination of demographics to cater to and expand their targeted clientele. This balance will be tricky to find because certain clients like shopping in a particular atmosphere. High-end shoppers like the prestige and exclusiveness of their targeted shopping destination. This would have to be carefully preserved and maintained in some way for the combined demographic mall concept to work.

LEARNING TO CATER TO MILENNIALS

Millennials were born after the 1980s and before the early 2000s and are a highly influential generation. They are forcing retailers to reevaluate both how they interact with and attract customers. This generation enjoys a high level of interaction with the brands they like through social media and therefore need some participative aspect. Retailers are faced with coming up with new ways to interact with this new type of shopper. It is more challenging and important than ever before to please this new generation of shoppers who has the ability to instantly voice their opinions online. They are more connected than the previous generation and want where they shop to be just as innovative and active as they are. Millennials are the driving force behind the changing atmosphere in retail. They are not enticed by Macy's or Sears like

their parents were. They would rather buy the new iPhone than buy an expensive piece of clothing or jewelry. This may be the root of malls transforming into destination centers.

People are shying away from traditional enclosed malls and embracing outdoor lifestyle centers and indoor/outdoor mall hybrids. According to consumers, open air centers have a more urban feel to them. Unfortunately, these types of centers are not suited for all parts of the country due to differences in climate. An outdoor mall in upstate New York may not be as crowded year round as one in Central Florida. Nearly all Tanger Outlets centers are outdoors regardless of location. Given that outlet malls are relatively new compared to traditional malls, they seemed to have had the modern, millennial shopper in mind when they were built. These centers are wildly popular and cater to the shopper who wants more for less. The word outlet should not be synonymous with inexpensive. Simon Property Group owns Woodbury Common Premium Outlets which is located in Central Valley, New York. The center is a mix of high-end luxury stores like Burberry, Prada and Barney's and lower end stores like Gap, American Eagle and Levi's (www.premiumoutlets.com). This center is a destination for charter buses from New York City filled with tourists from all over the globe. Currency exchanges can be found throughout the mall in addition to signs printed in many languages. This illustrates that Simon knows their customers and is doing everything in their power to cater towards them. The center is currently undergoing renovations to give it a fresh look and technology enhancements including a parking garage loaded with sensors and LED signs to tell you where there are open spots. These are the kind of technologies that entice millennials and till keep Simon's locations up to date and on the radar for younger shoppers. This kind of mall certainly is not on its deathbed, it is thriving thanks to the efforts of its owner to keep it modern and appealing to all of its target demographics.

CONCLUSION

Retail is undoubtedly changing, everyone seems to agree on that. One thing analysts cannot agree on however, is the reasons why and whether or not the American mall is a dying breed. Many articles look at the topic as a black or white issue: malls are either dying or they are not. This study has shown that it is not that simple. Yes, malls are dying, but which type? Malls that are struggling tend to be the lower rated malls that have done little or nothing to modernize and are in lower income areas. Malls that are thriving are morphing into destination centers or outlet mall hybrids in order to cater to the modern shopper and the millennial generation. Not all malls are thriving and not all malls are struggling. The malls that are thriving have likely taken steps to ensure that they stay that way. The lesson to be learned is that malls and retailers alike must learn to adapt in order to stay competitive and relevant. The many factors that play into the changing commercial malls will continue to morph over time, forcing retailers to continuously evaluate their customers and the best ways to cater to their each and every need.

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