

## Malls: Time to Think outside the (Big) Box

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The financial meltdown and stubbornly weak economy that has crippled a swath of industries across the United States has not spared shopping centers and enclosed malls, according to recently released statistics. An overall slowdown in consumer spending is keeping consumers out of malls, driving a rise in vacancy rates and a slump in lease prices.



To some degree, current mall troubles are driven by cyclical issues and more shoppers are likely to return when the economy snaps back, say faculty at Emory University's [Goizueta Business School](http://www.goizueta.emory.edu/) (<http://www.goizueta.emory.edu/>) and other experts. But according to [Roy Black](http://www.goizueta.emory.edu/Faculty/RoyBlack/) (<http://www.goizueta.emory.edu/Faculty/RoyBlack/>), a professor in the practice of finance at Goizueta, "unlike the recessions of the 1970s and 1980s, which were generally confined to certain sectors of the economy, the current slowdown is linked to the general economy, so its effects are much more pervasive."

This, along with other long-term issues threatening the viability of malls, highlights the importance of their remaining relevant, which may require a fundamental conceptual change.

"Just as brick and mortar booksellers and coffee shops aren't just about books anymore, shopping malls have to be about much more than shopping," says [Reshma Shah](http://www.goizueta.emory.edu/Faculty/ReshmaShah/) (<http://www.goizueta.emory.edu/Faculty/ReshmaShah/>), assistant professor in the practice of marketing at Goizueta. "Companies like Barnes & Noble Inc. and Starbucks Corp. have transformed the experience, enhancing their facilities to become more than just a place where shoppers can make purchases. Instead, they've tried to become destinations where people can come together to relax and take in entertainment, in addition to getting their shopping needs fulfilled."

Recent data compiled by companies like [Reis Inc.](http://www.reis.com/index.cfm) (<http://www.reis.com/index.cfm>), a commercial real estate information provider, indicates the challenges mall owners face.

"Retailers gave up 1.85 million square feet of occupied space in the second quarter at neighborhood shopping centers, while developers opened less than 400,000 square feet of new strip mall space," according to a [Thomson Reuters report](http://www.reuters.com/article/idUSN0610302020100707) (<http://www.reuters.com/article/idUSN0610302020100707>) that cites Reis.

Those recent figures are significantly lower than the seven million to eight million square feet of shopping centers built each year from about 2001, according to Reis.

The vacancy rate at large U.S. malls rose to nine percent, the highest since the first quarter of 2000. Simultaneously, asking rents fell to \$38.72 per square foot, the seventh straight quarter of declines and the lowest in more than four years.

"The weak economy is certainly part of the problem," says Shah. "But malls are also facing competition from online retailers that offer selection, price and convenience. That's why in the long run malls have to transform themselves into an experience-based venue that can't be easily replicated in an online environment. It's not just the clerical service or the trimmings, like Blockbuster video tried to do with its brick and mortar stores, offering theater-sized popcorn and candy. You have to offer something deeper that will encourage people to come to your facility."

To survive, mall owners need to think broadly about what they can offer, advises [Jagdish Sheth](http://www.goizueta.emory.edu/Faculty/JagdishSheth/) (<http://www.goizueta.emory.edu/Faculty/JagdishSheth/>), a chaired professor of marketing at Goizueta.

"In their current model, many malls host one or two large, or anchor, stores that offer multiple kinds of

seeking value. Secondly, people in general are spending less time shopping, so if shopping is a mall's primary value proposition, its customer traffic is likely to continue to drop over the long term."

Sheth says malls are now being challenged by other competitors, including so-called big box mass discounters like Wal-Mart Stores Inc. and Target Corp. To meet this competition, he says, mall operators need to rely less on traditional shopping offerings, and instead expand to offer a broader array of non-shopping activity.

"Malls took the first step when they integrated movie theaters into their locations," Sheth says. "But they should also look into hosting live entertainment, sporting and other events. The larger ones can also serve as a kind of hub, offering healthcare, educational and other services that can fit nicely into their existing infrastructure."

Malls might also consider bringing in new retail channels like grocery stores, Sheth adds, noting that mall operators could perhaps modify their lease structure, adopting a revenue-sharing model instead of a fixed-cost model.

In the U.S., the Mall of America probably serves as the best example of that kind of integration model.

Sitting on 78 acres in Bloomington, Minnesota, with 4.2 million square feet of gross building area, the Mall of America draws more than 40 million visitors a year, according to its website.

While many of them come to shop at its 520 stores, many others—from across the U.S. and from other countries—come for the 350 musical and other live shows the mall hosts each year, and for its amusement park, 1.2 million-gallon aquarium, educational facilities, nightclubs and other attractions.

"To attract people, you need to offer more than just a movie theater and food courts," agrees Stevan Buxbaum ([http://www.buxbaumgroup.com/mgt\\_d.htm](http://www.buxbaumgroup.com/mgt_d.htm)), executive vice president of the Buxbaum Group (<http://www.buxbaumgroup.com/index.htm>), an Agoura Hills, CA-based retail liquidator and consulting firm. "People who go to the mall-based theaters tend to go at night, and after they're done sitting in the dark watching a movie they get in their cars and leave without doing any shopping, so other retailers don't benefit from their presence."

Buxbaum says mall operators have to focus on interactive activities that encourage people to linger and walk around to different parts of the mall.

"The average mall operator may not be able to build something on the scale of Mall of America, but they can still offer something more than just row after row of retailers," he explains. "Consider setting up an ice skating rink on your property, or hosting music, craft or car shows that will draw people in, get them to interact and hopefully spur them to walk around the mall's corridors and shop, too."

Craft shows can be effective, he says, because "you've got a lot of small vendors that can set up in the mall corridors. By spreading them out, people will wander to different parts of the mall and they'll be more likely to also stop in at your mall's retailers."

But some mall owners have resisted this kind of strategy, notes Buxbaum.

"There are a few reasons," he says. "Some are hesitant to host rock bands or other entertainment that's likely to attract teenagers who may come for an event but aren't likely to have much money of their own to spend at retailers, and may instead just socialize in the corridors."

Buxbaum says another component of malls, kiosk owners, also resists the concept of craft fairs.

"It's ironic," he notes. "Mall owners originally invited in kiosks as a way to maximize their revenue stream by leasing out the underutilized corridor space at competitive rates. But the corridors are now oversaturated with kiosks, leaving little room for attractions like crafts fairs that could attract new crowds that would drive foot traffic to in-line retailers, which are the lifeblood of the mall."



out of business sales. It may be too early to say there's a significant and long-term shift in the way people interact with malls, but when the economy goes through a sudden shift—as it is now—shopping and other patterns also undergo a structural shift, and the new normal that emerges is seldom where we expect it to be.”

Buxbaum adds the squeeze that mall operators are experiencing is likely to get even tighter in the next few years.

“It's not just the current economy,” he explains. “We're also looking at changing demographics. The growth of malls originally coincided with a population shift away from cities towards suburbs. But now there are indications that people are returning to cities, which could put some malls at a further disadvantage, since urban residents may not be able to easily get to a suburban mall.”

As Black puts it, “when it comes to consumer patterns, retailers tend to be followers, not leaders.” If the movement away from the suburbs and back to urban areas picks up momentum, he says, “we may see suburban malls de-emphasized as urban locations become more valuable. It all depends on where people are moving.”

Not every mall is threatened, however.


“Across the U.S., we follow about 1,000 regional malls,” Buxbaum says, referring to a facility designed to service a larger area, about 15 miles, compared to small, local shopping malls. “About 200 are classed as A-plus, which indicates that their owners are willing to make significant investments in them to keep them fresh and relevant. Those malls, and the 200 other ‘Class A’ malls are likely to be able to adapt to shoppers’ changes. But there are about another 300 Class B malls and 300 more Class C malls that either don't have deep-pockets owners, or do but the owners have determined that the location does not warrant the significant investment necessary to update the centers. Those malls are more likely to experience more hardships going forward.”


One option for those malls, and for smaller ones that are on the ropes, is to tear down and restructure into so-called lifestyle centers.

Such centers tend to be smaller than regional malls and are usually not enclosed, Buxbaum says. Also, instead of hosting one or two big-box ‘anchor’ tenants, they're populated with a series of smaller shops.

“They're called ‘lifestyle centers’ because they tend to have more of a village or downtown feel,” he explains. “In keeping with the theory that you want people to linger, a lifestyle center may have more park-like centers, perhaps with benches and fountains. We've already seen some older, less viable malls get knocked down and recreated as a lifestyle center.”

Many malls have already demonstrated their ability to adapt to the changing needs of shoppers, first by taking steps like enclosing themselves to keep out the elements and then, in some cases, returning to an open-air layout that more closely resembles a vibrant shopping district. Now as they cope with changing demographics and other challenges, malls will once again have to innovate, offering more than convenient parking and competitive prices.

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