

LUXURY MEMO SPECIAL REPORTS

## State of the mall Luxury Memo special report

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*Florida's Bal Harbour Shops claims to be the most productive mall in the U.S. Image credit: Bal Harbour Shops*

By SARAH JONES

In the face of a rapidly evolving retail environment, malls are reinventing themselves to reassert their continued relevance.

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Much as with the broader retail sector, malls are being forced to adapt to changing consumer behavior, as shoppers buy less and bricks-and-mortar traffic falls. Despite cries that the mall is dying and a spate of shopping center closures, experts see a strong future for the mall as a place of experience, community and commerce.

"Brick-and-mortar stores aren't going anywhere," said Stephanie Cegielski, vice president of public relations at ICSC, New York. "The net number of malls for the past five years is a net positive, meaning that more malls have opened than have closed."

"Also, occupancy rates overall remain high at about 93 percent, which means that malls remain in a healthy state," she said.

"The mix of tenants at a shopping center might look different than 20 years ago, but that doesn't mean that a center isn't thriving. Consumers are demanding more experience, and centers are responding with more food and beverage and entertainment options."

ICSC, or the International Council of Shopping Centers, is the world's leading trade association for malls and shopping centers, with more than 70,000 members across 100 countries.

### Top 5 trends in mall management

- Digital integration

As consumers become more digitally connected, mall operators are incorporating technology into their properties to facilitate shopper services.

- Experiential appeal

Looking to attract consumers with more than retail, mall operators are adding features such as eateries and entertainment to encourage foot traffic and dwell time.

- Investment and expansion

Malls are pouring money into upgrades and increasing their square footage. According to JLL, shopping centers in the United States spent a total \$8 billion on renovations in the last three years ([see story](#)).

- Service

While much of the focus is often on the interactions that happen inside a mall's stores, shopping centers are making customer service a priority with new training and offerings.

- Mixed-use spaces

Besides serving as places of commerce, malls are being built and expanded into microcosms of a city with office spaces, hotels and more.

### Challenging times

The shopping mall, which rose to prominence in the United States in the later half of the 20th century, was traditionally a bustling social center. A hub of activity, particularly in suburban neighborhoods, malls served as meeting places as well as commercial centers.

In recent years, malls have been pressured as the retail environment has changed.

The rise of ecommerce and mobile commerce has meant that consumers no longer need to venture to a mall to shop. Those who do travel to a store may browse and see products in person and then complete their purchase online.

Consumers are also shopping less for physical merchandise, preferring to live less cluttered lives. Today, they are more apt to spend on experiences than things.

Affluent consumers are equally seeking to simplify their lives, with more than half of respondents in a recent YouGov study saying that they are looking to buy fewer things and declutter.

The biggest motivator for this shift is saving time. These individuals look to spend more of their time exploring their passions, or having "me time." Consumption patterns have been increasingly moving away from accumulation and more towards mindful purchasing, as consumers seek to fill their lives with experiences rather than material goods ([see story](#)).



*Affluent shoppers are looking to streamline. Image credit: Aventura Mall*

Within this challenging retail environment, a number of large department stores have struggled, resulting in a paring down of their footprint. Retailers such as JC Penney, Sears and Macy's have closed tens of stores to boost their financial health.

These chains often serve as the anchor stores in malls, and these losses add to the compounding pressures facing shopping centers.

In a 2017 report from Credit Suisse, analysts projected that a quarter of U.S. malls will close by 2022.

Many of the less profitable shopping centers have already closed.

The Deadmalls.com Web site catalogs the stories of once-filled malls that have either closed or are struggling with dwindling tenants.

Compared to more midmarket malls, those at the upper end of the spectrum have fared better, such as those owned by developers including Simon, Westfield, Taubman, Macerich and GGP, in addition to the standalone South Coast Plaza in Southern California and Long Island, NY-based Americana Manhasset.

Shopping centers that cater to more affluent clientele have generally been more productive, with more sales per square foot.

Per Coresight Research, about 20 percent of malls classify as Class-A properties, and account for 72 percent of all mall sales in the U.S., with double-digit sales growth in recent years. These higher-performing shopping centers tend to be in urban or tourist-driven areas.

For instance, Westfield World Trade Center, an upscale shopping destination, is penned as "the new port of entry to Lower Manhattan." The area is home to 60,000 neighborhood residents, 300,000 daily commuters who pass through the subway terminal and nearly 15 million international tourists ([see story](#)).



*Westfield World Trade Center gets foot traffic from tourists and commuters. Image credit: Westfield*

According to Green Street Advisors, the top 10 malls in the country generate more than \$1,000 per square foot, double the average. At the top of the list as of 2016 was Bal Harbour Shops in Bal Harbour, FL, with more than \$3,000 per square foot.

Despite this comparative health, a 2017 report from data intelligence firm Thasos estimated that the Class-A properties with more high-end anchor stores are losing footfall at twice the rate of less upscale malls.

The combination of falling foot traffic and positive sales is attributed to more visits turning into conversions.

"We believe dominant regional malls with a clear and distinct merchandising position, located in the best markets in America, will continue to do extremely well," said William Taubman, chief operating officer of [Taubman Centers Inc.](#), Bloomfield Hills, MI.

"Our strategy has always been focused on owning these types of Class-A assets in dense, high-income markets where there is often a significant level of tourism," he said.

"High-quality portfolios like ours will continue to be successful, regardless of disruption in the industry, and will gain greater market share over time."

Adaptation and reinvention

Looking to combat some of these challenges, malls are responding to the need for change with updates and adaptation.

One of the ways in which malls are modernizing is through technology. Most shoppers are entering malls with a connected device on them, opening doors for properties to engage them on mobile.

For instance, mall operator Simon has rolled out digital directories in a number of its shopping centers. These interactive 65-inch LCD screens help shoppers navigate the malls, showing them the quickest route to take to get to a particular store and communicating with the user's mobile phone to provide on-the-go assistance ([see story](#)).



*Simon's digital directories. Image credit: Simon*

Similarly embracing mobile's potential for in-mall navigation, Macerich will be offering indoor maps for its properties on Apple Maps this year.

Technology can also be used as a communication tool between a mall's tenants and shoppers.

Simon was an early adopter of beacons, integrating the Bluetooth-enabled devices into more than 200 of its properties in 2014. Simon's deployment of MobiQuity's Mobi-Beacon network provides a unique, opt-in opportunity for customers to engage with retailers, brands and mall applications for timely and contextually relevant personalized offers, information and real-time experiences ([see story](#)).

More recently, the mall operator rolled out a chatbot that helps shoppers find out information about their local mall through a conversational interface. Simon's chatbot connects consumers with details such as store directories, restaurants and services through Facebook Messenger ([see story](#)).

Macerich has also leveraged mobile to drive in-store sales. The REIT has worked with StepsAway to roll out an in-mall mobile retail program to more than 20 of its properties.

Consumers access StepsAway by logging into malls' WiFi networks, which allows them to browse local deals when they are near to retailers' stores. Brands can serve up promotions through the cloud-based platform from their corporate headquarters.

Embracing the potential of ecommerce, Westfield London brought the mall experience beyond its own doors through a partnership with a local hotel. The mall set up a temporary shop at the Sanderson Hotel through the installation of a smart interactive mirror, allowing guests to browse and purchase apparel from designers including Gucci and Armani.

One screen contained a video feed with a personal stylist, while the other was a search engine powered by Google and Westfield's Product Search technology. After purchases were made, they would arrive at the hotel within 90 minutes ([see story](#)).

Further combining ecommerce and physical retail, a number of malls have partnered with Happy Returns to host online return bars. The service works with a number of brands including Everlane and Eloquii to provide a physical return point for online purchases, allowing consumers to return in person rather than mailing unwanted merchandise back.



A Happy Returns bar. Image credit: Happy Returns

Happy Returns is also a means for mall owners to drive more in-store traffic for their tenants through ecommerce.

Malls have begun courting tenants who were previously pure play etailers, such as UNTUCKit and mattress company Casper.

Along with digital retail, malls are also adapting to changing transportation trends.

Westfield has linked with Uber to offer easier ridesharing to and from its properties across the U.S.

As part of the alliance, Westfield set up designated areas at its U.S. properties for customers to be dropped off and picked up by Uber drivers. With foot traffic down in malls, operators are leaning on new services to attract customers ([see story](#)).

Consumers shopping at upscale Los Angeles area malls The Americana at Brand or The Grove did not have to worry about parking during the 2014 holiday season. From Black Friday Nov. 28 through Wednesday, Dec. 24, consumers were able to book complimentary Uber Black rides to either shopping center, courtesy of real estate developer and owner Caruso Affiliated ([see story](#)).

#### Expansion and experiences

In another effort to drive foot traffic, malls are courting tenants that are non-traditional, such as grocery stores and hotels.

Catering to consumers' growing desire to live, work, eat and shop without leaving their neighborhood, mixed-use developments are providing microcosms within cities.

For instance, New York's Hudson Yards features residences, Equinox and Soul Cycle gyms, office space, restaurants and a shopping center that will include the city's first Neiman Marcus ([see story](#)).

Similarly, as part of Macerich's renovation of its Scottsdale Fashion Square shopping center in Arizona, the mall operator is planning to add residences, office space and a hotel ([see story](#)).



Rendering of Scottsdale Fashion Square. Image courtesy of Macerich

"The retail landscape is fast-paced and constantly evolving," said Kim Choukalas, vice president of leasing for **Macerich**, Santa Monica, CA. "Shopping center operators and developers need to foresee the change, be innovative, use technology and embrace new ways of doing things."

"That's why the shopping centers in our portfolio are always evolving and the mix is always changing it's what makes our destinations uniquely interesting," she said.

"Twenty or 30 years ago, most malls focused on apparel. Now shoppers find all kinds of retail from health, beauty and sporting goods to home furnishings and accessories along with more exciting food and entertainment options than ever before."

High-end malls are also expanding their footprints, creating more space for luxury stores and experiences.

Simon Malls' King of Prussia shopping center in Pennsylvania expanded its footprint to 2.9 million square feet.

With the extended floorplan, a number of existing King of Prussia boutiques took the opportunity to increase their store size. Burberry, Herms, Louis Vuitton and Tiffany & Co. all created flagships within the addition.

The expanded space also includes a technologically savvy parking garage, valet parking and a concierge-level guest services center ([see story](#)).

Miami's Aventura Mall similarly created space for more than shopping with a 315,000-square-foot addition.

Creating a social and cultural environment, the new three-floor wing includes areas for art installations and events in a design that intends to blend the indoors and outdoors. Among the additions are a 7,000-square-foot VIP lounge and eateries, putting the focus on hospitality ([see story](#)).



*Aventura's expansion includes entertainment, dining and art. Image courtesy of Aventura*

Westfield Century City in Los Angeles recently underwent a \$1 billion renovation.

Prioritizing walkability, the mid-century-inspired design includes acres of open space. Within the renovated center is the Atrium, an 18,000-square-foot entertainment space that can host fashion shows and other events, along with spaces for more intimate affairs.

Reflecting the mixed-use trend, the mall also houses a new Equinox gym and the West Coast's first Eataly ([see story](#)).

Taubman sees dining as a key component of the mall experience. As part of the group's Beverly Center renovation, the shopping center added four eateries on the ground level, including Yardbird and Eggslut.

"Taubman has always distinguished its shopping centers by creating extraordinary retail properties, merchandised to the sensibilities and needs of each market," Mr. Taubman said. "For us, this has always meant having great places to shop, dine and be entertained."

"Each of these characteristics remains fundamentally important to the center experience," he said. "It never has been one above the other."

Since consumers today can make purchases via ecommerce, malls are morphing to offer services that cannot be found in the digital space.

Some are borrowing ideas from other sectors, such as high-end hospitality.

Westfield, for instance, has announced its plans to introduce what it calls "Service with Style" to assist consumers who visit 33 of its United States shopping centers. As with hotel concierges, the service will provide insights and advice for consumers to have enjoyable shopping trips.



*Westfield's Service with Style is available at 33 U.S. malls. Image credit: Westfield*

To ensure quality service, Westfield trained all customer-facing employees over a period of two to three months to hone customer service skills, and each property has a dedicated coach. Those trained include the concierge team, brand ambassadors, center management representatives, valet attendants, security officers and the housekeeping staff ([see story](#)).

Concierges at upscale properties can act as passports to experiences as well. Consumers can consult these frontline staff for help with everything from dinner reservations and event planning to booking travel and entertainment.

Easing some of the hassle of mall shopping, many concierges offer hands-free shopping, allowing consumers to have packages dropped off in their car or at the desk for retrieval later.

At Macerich properties, concierges are available via text messages or live chat, bringing a digital touch to these frontline interactions.

Providing a personal touch, high-end shopping malls often offer access to personal shoppers who can help curate merchandise from stores for consumers. Personal shopping suites offer VIP treatment away from crowds.

South Coast Plaza in Costa Mesa, CA recently created a VIP suite. On one occasion, the Sultan of Brunei brought a party of 15, including his personal chef, to South Coast Plaza, and the suite made the shopping trip possible for the group when other shopping centers could not accommodate ([see story](#)).

"It's no secret that people have more ways to shop than ever before," Macerich's Ms. Choukalas said. "However, shoppers tell us that they want to be able to touch, feel and try on new merchandise, and that the return process is easier in person."

"Top-performing shopping centers, like ours, continue to be magnets for people, for ideas, for great experiences and for great brands," she said. "Our centers are community gathering places that offer a rich variety of in-person experiences: from great food and entertainment to exceptional amenities and lots of different kinds of retail."

"The best physical retail locations remain strong because people love to get together and interact in social settings, and successful retailers understand this. Great retailers in all kinds of categories that are in sync with their customers' needs will always have a place at strong properties."

#### Beyond the states

While the mall was a retail format born in the United States, today it is a global concept.

However, the design of properties in other countries, particularly emerging luxury markets, often differs from the traditional mall. Some international players are shaking up the idea of the shopping center.

The Dubai Mall, opened in 2008, is the world's largest shopping center by area, totaling 12 million square feet.

Built and managed by Emaar, the property takes mixed-use and entertainment to another level. Along with 1,200 stores and 200 eateries, it has an aquarium, Olympic-size ice rink and an indoor VR theme park.

The mall is also home to the five-star Address Dubai Mall hotel. More than 80 million visitors come to the mall each

year, surpassing New York's 63 million tourists last year.

In Asia, entrepreneur Adrian Cheng built the first museum-retail concept dubbed K11 Art Mall in Hong Kong. The property includes stores for brands such as Furla, Omega and Chow Tai Fook within an artistic environment complete with work from local artists and creative architecture.



*K11 Art Malls blend art and commerce. Image credit: K11*

Since the original K11 opening in 2009, the company has expanded the Art Mall to other locations including Shanghai. Next up, Mr. Cheng is planning K11 Musea, a mixed-use development in Hong Kong's Victoria Dockside that includes shopping, residences, hotel spaces, culture and art programs.

Vilaggio Mall recreates the feeling of Italy in Doha, Qatar with gondola rides on a canal and a design reminiscent of old European streets. Opened in 2006, the mall houses tenants including Cartier and Versace.



*Vilaggio Mall recreates the feeling of being in Italy indoors. Image credit: Vilaggio Mall*

#### Future of the mall

Despite recent challenges, experts agree that the mall is not dying, just evolving.

McKinsey believes that the successful malls of the future will deliver "retail-tainment," or experiences that cannot be had via digital channels.

The consultancy sees opportunities for a change in leasing, with the possibility for tenants to pay not based solely on store sales, but instead on foot traffic or a mix of online and in-store sales.

Per McKinsey, malls could also rethink how they use their real estate. Open stores could be rented for pop-ups, and shopping centers could sell retailers storage space or offer logistics services as ecommerce accelerates.

GGP has leased out space for pop-ups, including Kanye West's Saint Pablo boutiques, which featured merchandise in a gallery-style format.

Pop-ups are appealing to luxury brands, allowing them to explore specific concepts, particularly in emerging markets.

For instance, Italian fashion house Prada stationed itself at the Promenade Shops, Galaxy Macau for the holidays. A Prada Station pop-up takes reference from the world of travel, retailing merchandise designed for different parts of a journey ([see story](#)).



*Prada pop-up at Galaxy Macau. Image credit: Galaxy Macau*

French apparel and accessories label Louis Vuitton temporarily expanded its retail presence in Brazil through two concurrent pop-ups. The brand opened ephemeral boutiques in two of the country's malls located in different states, spreading out its geographic store footprint beyond its seven existing boutiques and its ecommerce site ([see story](#)).

Consumers today desire seamless retail experiences. Malls can deliver on this through click-and-collect, omnichannel services and pre-booking services.

Some malls have started to offer their retailers delivery services. For instance, Simon, Macerich, Westfield and GGP have linked with Deliv to power same-day delivery with crowdsourced drivers.



*Deliv hires contractor drivers to shuttle purchases locally. Image credit: Deliv*

Deliv also helps them develop infrastructure such as concierge services, storage and special parking spaces for delivery personnel.

Meanwhile, Westfield has debuted smartphone parking and food ordering applications for select locations, looking to make the mall visit more seamless.

#### *Westfield's Smart Parking*

Design consultancy Callison RTKL predicts that one of the main mall foot traffic drivers of the future will be food.

Consumers currently spend more on dining out than they do on cooking, pointing to the potential for getting shoppers in the door with unique culinary experiences.

The agency sees the mall of the future as having residences, a multiplex theater, office space, a hotel and a grocery store. It also foresees shopping centers having public transit stations within the complex.

"GGP's regional shopping centers thrive and evolve because we keep pace with the future of retail and the shopping experience," said Melinda Holland, senior vice president of business development at **GGP Inc.**, Chicago. "This is key.

"There has undoubtedly been a shift in consumer behavior in terms of spending and this drives our merchandising strategy," she said. "For instance, we're currently focusing on adding uses to our properties like entertainment, grocery, dining, fitness, co-working space and, of course, the growth of online brands expanding to brick-and-mortar retail."

A.T. Kearney predicts that malls will fit into one of four categories in the future.

Destination centers change the idea of the anchor, favoring a large-scale store or experience that delivers entertainment or discovery. Prime examples are the Mall of America's indoor roller coaster or the Michigan Women's Hall of Fame at Meridian Mall.

Another potential format is an innovation center that leverages consumer traffic and interaction to glean insights. In this environment, consumers could be persuaded to participate and give feedback for perks.

A.T. Kearney also sees room for shopping centers that have tenants linked by shared values or interests.



*Malls are increasingly becoming places for living rather than just shopping. Image credit: Morning Consult*

Malls could also create living environments catered to a certain demographic. For instance, a mall could combine senior living with medical facilities and shopping.

"Malls will be more experiential, both in tenant mix and in technology," ICSC's Ms. Cegielski said. "What exactly technology will look like in the future we cannot predict, but we foresee brick-and-mortar continuing to play an active role in daily lives and communities throughout the world."

That said, in the future, is a mall the right place for luxury?

While many high-end brands remain invested in a shopping center presence, a recent report suggests that most mall visitors are uninterested in luxury.

A survey from Morning Consult places luxury experiences much lower on the scale of desired amenities at a shopping mall than more traditional features such as better food options and nicer movie theaters. The research suggests that luxury brands may want to move away from shopping malls in favor of a combination of flagship

locations, boutiques and online store ([see story](#)).

However, luxury brands still see an opportunity in shopping centers, with major recent and upcoming openings.

Department store chain Barneys New York is opening its first store in Florida in 2023. The retailer signed a long-term lease with Bal Harbour Shops for a 53,000-square-foot store, which will anchor the mall's upcoming expansion ([see story](#)).

Neiman Marcus also recently opened at The Shops at Clearfork in Fort Worth, TX. Also, Simon and Cassco Development have built the first phase of what is intended to be a 500,000-square-foot open-air upscale shopping center ([see story](#)).



*The Shops at Clearfork in Fort Worth, TX. Image credit: Simon*

Additionally, REITs continue to see the potential for luxury brands in malls.

"[Malls offer luxury brands] traffic, legitimacy and increased sales capacity," GGP's Ms. Holland said. "Physical stores play an important role in driving both online and offline luxury sales."

"Physical stores drive higher conversion rates as they offer personal in-store assistance, for example, customized high-touch experiences," she said. "Luxury items are not an impulse buy and take more time and consideration prior to purchase. Consumers want to touch, feel and try on luxury products before buying to ensure they are happy with their purchase."

"It is critical that the overall customer interactions at the property support that experience. Having a physical store experience helps the brand convey and control the vision of the brand and offerings, creating an additional touch-point to their consumer."

Best practices for mall operators:

- Stephanie Cegielski, ICSC
  - "Responding to consumer demand is a critical component of success. Consumers want variety and they want a place that meets all their needs. Those needs vary by consumer base, so leveraging the wide range of data available can be beneficial to tailor the experience."
  - "We're seeing an increase in demand for experience and convenience. Consumers want to be able to take their family and spend the day doing a variety of activities but they also want to be able to just stop in and pick up purchases made online."
- Melinda Holland, GGP Inc.
  - "Embracing change is mandatory in order to remain a key player in the retail evolution. It's evident at GGP's properties that physical retail and a sense of community remain a very important part of the shopping experience."
- Kim Choukalas, Macerich
  - "Create a relationship with retailers to understand their business model and what is important to them. Only then will you know how the environment you create around their store will work best for their success."
  - "Keep up with the trends and changes in the retail environment. Be nimble, be educated and be

innovative.

- "It is essential to have outstanding service both in the shopping center through valet, a roving concierge, multilingual Web sites and within the stores and restaurants."
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