

RETAIL

What malls must do now that Sephora and Macy's are abandoning them

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No footfall in this near-empty mall in the United States

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The fate of many of the nation's malls hangs in the balance after Macy's just announced it will close **125 of its stores** over the next three years, most of them Macy's. **Here** is a partial list of the malls impacted.

The move will leave Macy's with only about 400 stores remaining after shrinking from a high of 773 stores in 2014. But Stacey Widlitz, president of SW Retail Advisors, does not think the latest round of closures is near enough.

"There will be more [closures]," he told **CNBC**. "I think they've got to close 20 percent of the store base. The stores are just so big."

To add insult to injury, **Sephora just announced** it would open 100 new stores, but most of those will be outside traditional malls where they have been an important in-line tenant.

And while Macy's is pulling out of malls, it will open seven freestanding off-price Backstage stores and it is testing a new off-mall Market at Macy's concept in Dallas.

With these two prominent **retailers abandoning malls**, it sets up a downward spiral for the mall sector that will be hard to stop, not that prescient people did not see this day coming.

Back in 2017 **Credit Suisse predicted** that as many as 25 percent of the nation's 1,169 malls, or some 275, would close by 2022. It raised a lot of eyebrows at the time, but not that much alarm since 2022 seemed a long way out and people figured a lot could change by then.

At about the same time, **Green Street Advisors** conducted an analysis of 950 malls that identified the most at-risk malls the 300 or so malls that were classed in the bottom C and D category.

Commenting on the results that found over two-thirds of the malls studied suffered a decrease in the number of national tenants, they wrote: "While the sector trend is certainly negative, the malls experiencing outsized national tenant vacancies are more likely to experience rapid deterioration or need significant capital investment."

Sadly, malls have rapidly deteriorated since then.

In 2019 store closings reached historic highs, with some 9,200 major retailer stores shuttered, following 5,437 closed in 2018.

While the International Council of Shopping Centers (ICSC) says mall occupancy rates "remain high at 90 percent," **Reis Moody's Analytics** counters that the current 10 percent mall retail vacancy rate has reached an all-time high, more than at any time during the past two recessions.

Many of those vacancies are mall anchors, which have historically been flagships that draw traffic to malls.

Sears, long a fixture in the nation's 1,169 malls, has shrunk from 863 stores in 2000 to some 540 today, nearly 40 percent of its fleet.

J.C. Penney's has dropped from 1,075 in 2002 to 864 in 2019.

With this latest announcement, Macy's may have put the last nail in the coffin for a good number of malls.

Malls on the edge

These trends are setting up a crippling downward spiral.

As malls lose not just their anchor tenants but in-line tenants too, existing malls give people fewer and fewer reasons to shop there.

The result is that C and D malls get even weaker, with the potential of more B malls slipping into the C and D category.

Even the A malls are struggling to attract new tenants.

Luxury mall mainstays such as Nordstrom, Saks Fifth Avenue and Neiman Marcus have been opening more off-price stores, while selectively shutting down their full-priced nameplates.

Malls have not kept pace with the changing expectations of consumers or their differing needs in an omnichannel world where shopping, like going to the mall, has been disintermediated from buying, thanks to the ease of ordering just about anything anytime online.

More retailers are leaning into this shift and in 2020 they are going to pick up the pace of investment in digital transformation, putting malls that depend on foot traffic in an even tougher spot.

"2020 will be the year of digital growth," predicts BDO's Natalie Kotlyar, lead analyst in a just released study entitled "**Retail Rationalized**" that surveyed 100 retail CFOs at companies with revenues from \$250 million to \$3 billion.

"Retailers are banking on the world of digital to take them through 2020," she said, pointing to the finding that 67 percent of those surveyed identified digital transformation as their number one growth strategy this year.

Of note, only 14 percent of the chief financial officers surveyed work in pure-play ecommerce retailers and 86 percent are with department stores, Big Box, specialty or discount retailers.

With so many retailers pivoting toward ecommerce, the need for more physical stores will drop and malls, in particular, will suffer.

"It will have a snowball effect," Ms. Kotlyar said. "People today are looking for convenience. If they go to a store, they want to shop quickly, get what they want and get out.

"Strip centers and Big Boxes fill the bill," she said. "People don't want to spend their Saturday afternoons walking around the mall. It is crippling malls."

Adding experiences is only part of the fix

To keep malls a destination where people will want to go, they have been adding experiential attractions to their offerings.

Since everybody's got to eat, malls have been keen on adding restaurant experiences, most especially since the last recession.

In 2006, the typical mall devoted only about 10 percent of its square footage to food, beverage and entertainment, according to **Cushman & Wakefield**.

Since then, however, the typical mall devotes about 15 percent to dining experiences, but the best class A malls make

food and dining even a higher priority, allocating restaurants as much as 25 percent of space.

That investment pays off, according to [research from ICSC](#).

Some 40 percent of shoppers say they choose a mall destination based upon the dining options found there. Furthermore, dining guests spend more when they visit, with spending rising as much as 25 percent when customers spend time enjoying quality food and beverage offerings.

But just by adding restaurants and recreational attractions to the mall does not solve another problem: how to convert visitors to consumers.

"The bigger question is after people go to dinner in the mall or visit the amusement park, will they also go to the retail section and shop?" BDO's Ms. Kotlyar asks.

"The next biggest challenge for these experiential malls is how to convert visitors into retail customers," she said.

A [Kearney](#) study, entitled "The Future of Shopping Center," summed it up: "To succeed in the future, the industry needs to think like the customers it serves."

In other words, the mall must do more.

Transforming malls into community centers

While offering a selection of dining and entertainment options is a step in the right direction, there are so many other experiences that malls can provide if they pivot toward thinking more about what people in their communities want and value.

The ICSC describes malls as "integral to the social fabric of communities by providing a "third place." They offer space to be with friends and family when not at work or at home.

What makes a community center thrive? Yes, it is partly shops, partly restaurants, movie theaters and playgrounds, but so much more.

Thriving communities are public hubs that include schools, libraries, government offices, post offices, hospitals, churches, museums, historical societies, banks, transportation centers and parks that serve the needs of people in the community.

Elements of each of these can be brought into the mall.

For example, a recent [Gallup Poll](#) found that more adult Americans visited libraries last year than went to the movies, live sporting events, museums, concerts, amusement parks and casinos, among other activities.

Further, the most active library users were women and young people ages 18-29, just the kind of potential customers that malls need to cultivate in their communities. So why do not malls invite the local library in as a public service?

To become a true community center, not just a place for people to spend money, malls need to adopt a public service approach. That represents a radical shift for malls, but one that is right for our time.

Consumers today are more involved than ever in social and political causes. Malls can play in that space with additions such as post offices as well as offices for elected officials and public services.

Malls should provide community event space to host town hall meetings, create learning spaces for children, and support local museums, historical societies and nonprofit groups with space for special displays and community engagements.

And, of course, malls can reach into the community to sponsor fun special events, such as art shows, live concerts, craft demonstrations, clothing repair, recycle, exchange events, wellness and sports clinics, local wine and beer tastings, the list goes on.

The manager in charge of special events, programming and public services should have just as much clout in the mall organization as the manager in charge of leasing.

[McKinsey](#) foresees this shift, predicting that the mix of tenant to public spaces will shift from the current 70 percent tenant to 30 percent public mix to 60/40 or even 50/50.

"When this happens, these expanded public spaces will need to be planned and programmed over the year much like an exhibition. They will be managed more like content and media, instead of real estate," the company writes.

Natalie Hwang, the managing director of **Simon Ventures**, said what is needed are new ways of organizing and arranging the mall environment, or "dynamically recalibrating spaces."

Ms. Hwang calls on malls to think of their spaces as places to "leverage different content platforms," content being the collection of stores, the restaurants, the special events, and other tenants and attractions that make up the mall.

By providing more meaningful experiences to people in the local community, malls will deliver the most meaningful experiences their retail tenants want: a place for customer acquisition, not just a place to conduct transactions.

Malls for more than commerce

Mall owners, developers and managers need to think of their malls as content platforms that support the many facets of people's lives.

In that way they will facilitate retail sales by recognizing and understanding the mall's place in the community and connecting with that local community through shared core values and aspirations.

MALLS MUST become the new American "Main Street," where people feel a real sense of community and belonging, not some faux approximation of it.

As the Kearney report concluded: "The future of retail real estate is as robust as the industry's imaginations. Future success depends to a large degree on being able to unlearn' the lessons of the past.

"Tomorrow's success will belong to those operators and tenants willing to break from yesterday's patterns and practices and fully embrace a consumer-driven future."



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