

Preview: **The Mall is Not Dead Series**



- 1) Fung Global Retail & Technology published the first installment of our *The Mall Is Not Dead* series in November 2016. The report analyzed the changing US mall landscape and mall traffic.
- 2) The next report in the series, to be published this spring, takes a deeper dive into the mall landscape and examines the specialty store and department store channels in light of what seem to be near-daily announcements of store closures and bankruptcy filings. The report also analyzes the role of e-commerce as it pertains to the mall.
- 3) In our final report in the series, to be published later this year, we will explore what the “mall of the future” might look like and examine the important roles technology and retail will play in malls in the coming years.

This is a preview of the next report in our *The Mall Is Not Dead* series. The first report in the series was published in November 2016. In that report, we noted that malls across the US have been facing difficulties for some time. According to RetailNext, mall traffic in the US has decreased for 42 consecutive months, and it continues to be challenging. Malls have seen an average decrease in traffic of 9.1% per month since January 2015. In addition, there seem to be almost daily announcements of retailers closing significant numbers of stores and others filing for bankruptcy. These trends prompt a number of questions: What does all this mean for the future of the mall? Will malls even exist in 10 years? Will the mall of the future be vastly different from the mall of today?

In our second report in the series, to be published this spring, we dive deeper into the mall landscape, analyzing the major retail and real estate trends affecting malls as well as specialty store, department store and e-commerce trends that are impacting malls. In the third report in the series, we will look at the mall of the future and the technology that will drive the consumer experience there. We will also explore the future roles of retail, entertainment, experiences and food in malls.

Overall, we are optimistic that the future of retail will be driven by technology that enables exciting possibilities for engaging consumers’ senses. Stay tuned for the remaining reports in our *The Mall Is Not Dead* series.

FLASH REPORT

Part One Review: Mall Traffic Is Declining and 30% of Traditional Malls Are Likely to Close

Traditional malls are being challenged, partially as a result of their own historical success. There is now an excess of malls in the US, mostly within the C and D property classifications. There are 1,221 malls in the US today, according to the International Council of Shopping Centers, and the number of malls increased by more than 300% from 1970 to 2015.

We believe that at least 30% of malls need to be closed. Malls classified as A properties are the most productive; they account for only 20% of all malls, yet represent 72% of total mall sales. The top 10 malls in the US see average sales per square foot of over \$1,000, which is more than twice the mall average. Sales at A malls have grown by double digits in the past five years, and most A malls are in urban or tourist areas.

Part Two Preview: Department Stores and Specialty Stores in a Digital World

The department store channel has seen significant challenges and sustained periods of falling sales. According to the US Department of Commerce, department store sales have declined by 30% since 2005. We believe that mass-market specialty stores have also peaked in terms of sales and store count, and that they, too, are on the decline. The fast-fashion industry has changed consumers’ expectations, and they now demand that new, on-trend merchandise be available every few weeks instead of every few months as in the past. These changing demands have impacted mass-market retailers, and e-commerce and the prevalence of niche brands are upping the competition every day.

One of the biggest challenges for brick-and-mortar retailers today is staying current in a digital world. It is difficult for these retailers to compete with the convenience that e-commerce offers. Consumers are still using the in-store experience to complement their e-commerce shopping—more than 90% of purchases still occur in-store—but the retail landscape is evolving by the minute. Shoppers now demand more differentiated and customized products, and they want them delivered faster than ever.



Source: shutterstock



FLASH REPORT

Part Three Preview: The Future of Malls—the Transformation

So, how will malls remain relevant? We see them transforming in two ways: First, the retail equation will change in malls, with the emphasis shifting from retail to experiences. Today, traditional malls are focused on retail, which accounts for 80%–90% of mall space. Tomorrow, more mall space will be devoted to experiences, food, entertainment and unique events. For example, malls may host a community book club led by a local author or collaborate with mall stores and a local designer to host an event where children can create Mother’s Day cards. We also see experiences becoming more personalized and customized. For instance, malls may feature special entries for express or regular guests or offer “frequent guest” services for patrons that include guest benefit packages.

We envision the mall of the future as one where the lines between the physical world, the virtual world and e-commerce all merge—where consumers shop using virtual-reality headsets and augmented-reality fitting rooms. This is already happening on a small scale, as some retailers are using virtual headsets to enable consumers to shop in virtual stores and others are using “magic mirrors” in fitting rooms. Although these concepts are still in their infancy, we see them expanding. The mall of the future will be more agile and flexible, but is still a work in progress.



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