



PERSPECTIVE: A New Direction for Shopping Malls

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by Valerie Dugan

It used to be, when I was young, that a trip to the local mall was a real treat, with lunch at the food court and perhaps a Disney movie in the plush new cinemas. In summer we could cool off with ice cream, and before Christmas, we'd enjoy the trees and wreaths with their giant ornaments, battle the crowds, and sit on Santa's lap for a picture in front of his castle.

These days, with the phenomena of e-commerce, giant box stores, and shopping clubs, the mall as we knew it seems to be changing. While many landmark malls around the nation are plagued by empty retail space and a significant drop in visitors and revenues, others have added attractions that continue to bring retail traffic.

E-commerce sales in the U.S. last year totaled over \$341 billion, a more than 14 percent increase over the year before, and spiked in November and December for pre-holiday sales.^[1] Some experts project the e-commerce space will grow to \$548 billion by 2019.^[2]

What will that trend mean for traditional retail? According to some analysts, over the next decade, about fifteen percent of the nation's malls will either go bankrupt or will be converted into non-retail space, and the numbers are rising.^[3] One retail consultant even predicts that in the next fifteen to twenty years, up to half of America's shopping malls will close, especially those that house lower end to midlevel stores.^[4] The ones that survive will be those that successfully adapt to changing consumer demands.

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Mini-golf courses, skating rinks, gym facilities, laser tag, mazes, and even go-kart raceways are all within the spectrum of entertaining additions to malls these days.

In Connecticut, one furniture retailer has incorporated a giant, indoor rope-climbing attraction coupled with entertainment^[5]. While not in a mall, this retailer is a perfect example of the kinds of things that malls may need to do to maintain their foot traffic.

Another successful approach to damming the tide of dying malls has been the addition of grocery stores: developers bank on the philosophy that “everyone needs to buy food, so why not entice them to look at other items, too?”^[6]

Some malls replace slumping anchor stores with restaurants, movie theatres and discount shops. This may be a short term fix, but if two or more anchors fail at the same time, chances are the entire mall will go out of business, researchers found.^[7]

The research results further predict that the space would likely be replaced with business offices, health care facilities and community colleges.^[8]

What are other nations doing? In China, futuristic new high-end malls target “smart” shoppers with technology, such as touch-screens and interactive mirrors in fitting rooms that can change lighting, reach a sales associate, or display a selection of other items of interest.^[9]

At the same time, these malls-of-the-future provide consumers with “experiential” reasons to visit, reasons that cannot be found online. For instance, one mall offers a Christmas headquarters which sends out texts to guests advising them when Santa is available for a visit.^[10] Once there, guests also can superimpose themselves into a selection of “selfie” videos with unique backgrounds and themes.^[11]

As American malls look for anchor stores, and innovations, to attract shoppers, investors simultaneously look for interesting opportunities for their portfolios.

Open-air retail space, such as strip malls, seem to fare well because their tenants often include discount stores, grocers and drug stores – staples of every economy.^[12] In fact, open-air shopping

centers make up a larger proportion of the country's total square footage for retail than do enclosed malls.

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And, tenant occupancy for existing properties is reportedly high as new construction decreases in a slow growth economy.^[14] The dearth of supply means that landlords can push rents up.

Investors should discuss the sector with their financial advisors and consider it as part of a well-balanced portfolio. As with any other investment, of course, there may be risks involved, and each individual should evaluate based on their long term financial plan.

While visits to the malls as we remember them from childhood may be a thing of the past, the malls of the future certainly hold promise.

Valerie B. Dugan, CFP, is a Senior Vice President and Financial Advisor with the Global Wealth Management Division of Morgan Stanley in Hartford. For more information, please contact Valerie at 860-275-0779.

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[1] <https://www.internetretailer.com/2016/02/17/us-e-commerce-grows-146-2015>

[2] <https://www.statista.com/topics/2443/us-ecommerce/>

[3] <http://www.businessinsider.com/shopping-malls-are-going-extinct-2014-1>

[4] ibid

[5] <http://www.jordans.com/attractions/it>

[6] <http://www.sandiegouniontribune.com/sdut-why-your-mall-putting-grocery-store-2012aug04-htmlstory.html>

[7] <http://www.businessinsider.com/shopping-malls-are-going-extinct-2014-1>

[8] ibid

[9] <http://www.businessinsider.com/what-the-mall-of-the-future-looks-like-2016-1>

[10] <http://www.businessinsider.com/what-the-mall-of-the-future-looks-like-2016-1>

[11] <http://www.businessinsider.com/what-the-mall-of-the-future-looks-like-2016-1>

[12] <http://www.wsj.com/articles/mall-reits-are-on-many-investors-shopping-lists-1457456123>

[13] <http://www.wsj.com/articles/mall-reits-are-on-many-investors-shopping-lists-1457456123>

[14] ibid