



# How to dodge a bullet

American regional shopping centres are in decline at a fast rate, as retail chain closures increase and department stores become obsolete. Is it a pattern that will be repeated within the Australian retail sector? **BY MICHAEL BAKER**

It's been another tough year for the American regional shopping centre. According to the latest data from International Council of Shopping Centers (ICSC), regional mall sales per square foot declined by -0.3 per cent in the year through November 2017. That followed a decline of -1.6 per cent in 2016 and no change from 2014 to 2015.

Store closures have been up sharply among major retail chains and these have hit the enclosed mall sector particularly severely. This is because malls (the US term for what Australians call 'regional' or 'superregional' shopping centres) have two critical features that other shopping centres don't: first, they are invariably anchored by department stores, and second, small specialty shops are skewed heavily toward apparel.

Put those two factors together with the fact that malls were ridiculously overbuilt in the first place – and you have a perfect storm. As department stores became obsolete, apparel retail began to shift online, and intergenerational and lifestyle changes began to bite, the US mall found itself in a race against time.

No-one really knows for sure exactly how many malls there were at their peak, but estimates vary from 1,800 to 2,500 or so in the

late 1990s. Now there are fewer than a thousand, if you don't count dysfunctional projects with vacancy of 50 per cent or more.

### Is it contagious?

Retail and property trends generally hit Australia with a lag. Typically, experimentation with new concepts in the retail industry has begun in the US, which is due to a culture of risk-taking, intense competitive pressures and easy finance (although lately, there has been some shift in new concept development to Asia).

Australia's regional shopping centres are in some ways eerily like their American counterparts. If the US mall is coughing and spluttering, will its Aussie counterpart follow suit?

Here are some things to consider. First, Australian malls are apparel-heavy with domestic brands and it's a problem. In the US, national brands have led the mall exodus in recent years, either by pruning their store fleets or outright liquidating. The domestic chains have conceded defeat to international fast fashion operators that now themselves are overstored.

Second, Australian malls also parallel the American experience with their absurd reliance on department stores and discount

department stores as anchors. There just isn't enough demand for them in the market anymore and their numbers have to come down drastically over time.

### The Australian way

But at this point, Australian regional centres diverge from their US brethren. Australian malls, like those in Europe and Asia, have always diversified anchor risk by incorporating supermarkets, which drive a huge amount of traffic that US regional shopping centres don't get.

US mall operators are now in some instances trying to mimic non-US malls by adding supermarkets but there are significant blockages. One is consumer culture. When I talked about supermarkets in malls with a major successful US shopping centre company CEO a couple of years ago, he shook his head and said that grocery shopping and 'discretionary' shopping were two entirely different trips and couldn't be mixed in US shopping centres.

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The second obstacle is also consumer-related: Americans like the convenience of the open-air U- and L-shaped neighbourhood and community centres, which allow them to park in front of supermarkets and wheel their grocery carts straight out to the car without having to use vertical transport and deal with underground parking lots.

Meanwhile, Australians have grown up with the idea of vertical movement of shopping carts and underground parking, so doing the weekly grocery shopping inside large sub-regional or regional shopping centres is second nature to us.

We also don't mind mixing the grocery shopping with a bite to eat and a browse around other shops. This has been an immense competitive advantage to Australian enclosed mall operators over their US counterparts. More traffic, more anchor sales, more cross-shopping to the small shops.

Food anchors stores are not the only area that give Australia's large shopping centres a leg up on the Americans. Another factor is design. Australians are far more willing to put up with the urban design failure that enclosed malls represent than Americans, who have increasingly shifted their patronage to design-intensive, well-landscaped open-air new urbanist centres during the past decade, at the expense of enclosed malls whose typically huge, ugly boxes show the middle finger to whatever is around them.

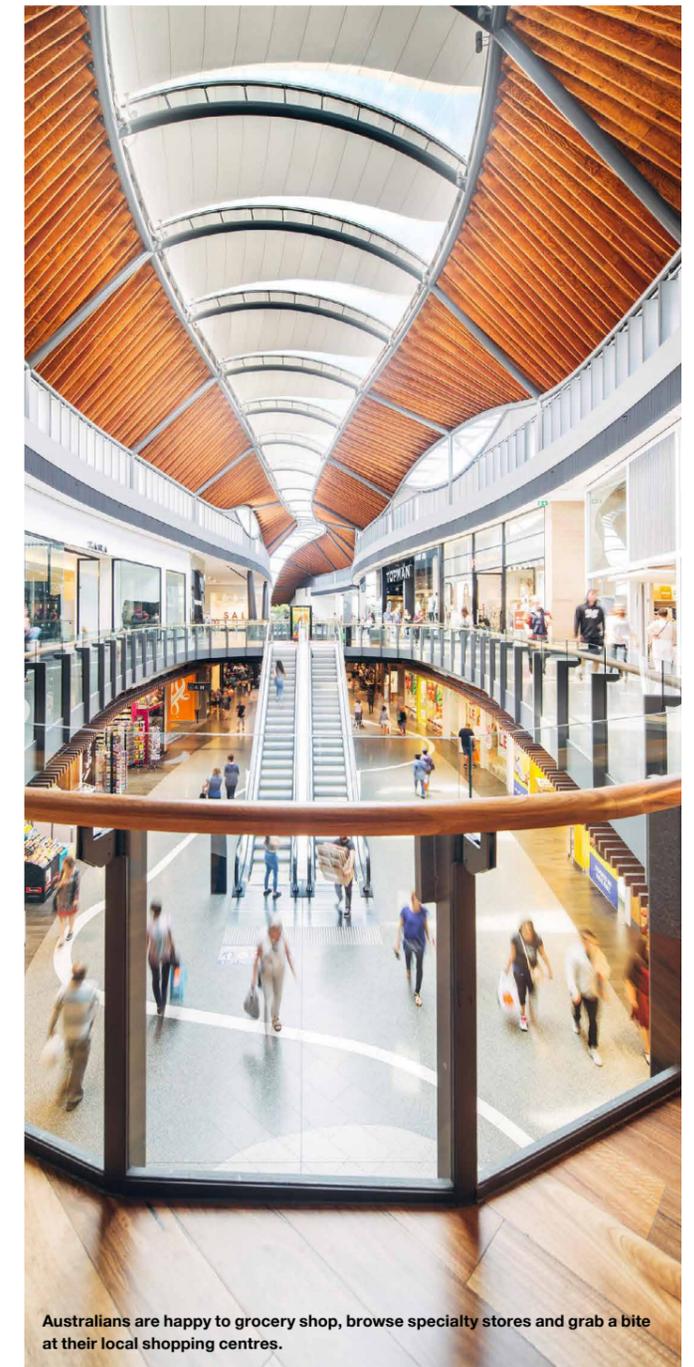
In Australia, this same shift hasn't occurred and it doesn't look like it will be changing any time soon.

There is still one other good reason that Australia's large shopping centres are unlikely to face as many problems as in the US, which brings us back to the issue of experimentation and risk in new concept development. It's that local shopping centre operators can sit back and watch the trialling of new technologies and adopt what works without the same risk of failure.

Sure, Australia's shopping centres will be vulnerable to ecommerce like shopping centres everywhere. They will have to do something about their oversupply of department stores and discount department stores. Their domestic apparel chains will need pruning too.

But these are by no means impossible tasks and there are ways of fixing these things, some of which are already being implemented effectively, if patchily, elsewhere. **IRW**

*Michael Baker is a Sydney-based retail consultant and former head of research at the International Council of Shopping Centers.*



Australians are happy to grocery shop, browse specialty stores and grab a bite at their local shopping centres.