Recently I was invited by *You and Yours*, BBC Radio 4's daily consumer show, to talk about the problems facing INTU, owners of 17 shopping centres, including some of the UK's largest malls, such as the Metrocentre and Trafford Centre. The interview took place a few days before lockdown, inside an already near deserted Trafford Centre, a mall that normally attracts over 31 million visitors a year.

INTU's revenue decreased by £38.8 million in 2019 to £542.3 million. A reduction in rent receivable from the impact of CVAs and administrations, and increased vacancy appear to be the main drivers, leaving INTU with £4.5 billion debt. Whereas, in 2011, few questioned Capital Shopping Centres (INTU's parent company) purchase of the Trafford Centre for £1.6b (at the time the UK's largest ever property deal), given that by 2015 its market value had risen to £2.2b. However, according to the London Stock Exchange, by December 2019 its value had fallen to less than £1.7b.

The problems affecting shopping malls, however, are not exclusive to INTU or the UK. At their peak in 2008, there were 1100 malls in the USA, but in 2017, Credit Suisse predicted 1 in 4 would close by 2022. In January this year, *The Financial Times* reported an all-time high 9.7% vacancy rate in US malls.

However, none of this accounts for COVID19. With a major anchor tenant like Debenhams now filing for administration for the second time this year, the current crisis means that shopping malls look like an increasingly perilous business model.

If malls are struggling in the country that invented them, then it is timely to ask the question why there is trouble at the mall.

The shopping machine

I would imagine few who regularly shop in malls are aware of Austrian architect Victor Gruen, who is widely recognised as the designer of the first mall. Opened in 1955, the Southdale mall near Minneapolis, was purposively located next to the highway, and provided free and ample parking. Southdale also shares many other facets of a contemporary mall: a fully enclosed and climate controlled space, to provide a pleasurable environment, free from traffic, litter and graffiti. With strategically located anchor stores, Gruen carefully designed the interior to encourage the continuous flow of pedestrians in, through and out the mall, requiring them to pass virtually every storefront along the way, thereby maximising profit, sales and footfall. The secret of the mall's success is *The Gruen Effect:*

"… the moment when consumers enter a shopping mall or store and, surrounded by an intentionally confusing layout, lose track of their original intentions, making consumers more susceptible to make impulse buys"

Hence, malls become attractive investments and Gruen went on to design 26 by 1967, although he later regretted his creation. However, by establishing the blueprint for an efficient machine for shopping, the mall became a symbol of the new age of mass consumerism. Subsequent malls simply amplified the economies of scale. Opening in 1981, the West Edmonton (Alberta) boasted 350,000 sq. m of Gross Leasable Area and 800 stores; to become the world's largest. That was until 2005, with the opening of the South China Mall (Dongguan). With 660,000 sq. m GLA and 1500 stores, the Trafford Centre's 200 shops and services seem rather meagre in comparison.

Mall today, gone tomorrow?

There are several explanations why malls are closing across the USA. Numerous commentators have reported on the decline of the suburbs, as younger hipper Americans reject the conformity of a suburban lifestyle, preferring instead the richness and diversity of living downtown (see for example Leigh Gallagher's 2014 *The End of the Suburbs*.

In the UK, we have seen a similar movement into the centre of cities like Manchester, where 66% of residents walk to work. Oxford University suggests younger people are taking 36% fewer car journeys compared to the 1990s, and the DVLA tells us younger people are now less likely to hold a driving license. *Bloomberg Business Week* declared 2019 to be moment of *Peak Car* production, with manufacturers now cutting production targets.

As predicted by Holbrook and Hirschman in 1982, people are becoming less materialistic, instead preferring to seek out unique leisure and retail experiences. Consequently, the mall's homogenised and sanitised landscape of ubiquitous brands and chains suddenly seem dated and out-of-touch with consumer behaviour

In summary, the post-millennial generation lacks both the inclination and the means to drive out to boring suburban malls. When we also consider the impact of online shopping and the collapse of multiple retailers, malls are already facing an uncertain future unless they can attract new customers.

Then came a global pandemic.

COVID19

The current crisis is having specific impact on companies like INTU, with Fitch recently downgrading INTU's credit rating, citing COVID19. For example, the government's temporary ban on eviction of commercial tenants has already contributed to a shortfall in rents, with further suspensions of rental payments imminent. INTU received just 29% of rent for the second quarter of 2020 (compared to 77% in 2019). With declining rental values and heavy loans outstanding, INTU's cash flow is right on the edge. Furthermore, with declining income and service charges, it is not clear what is happening to general maintenance, cleaning and security within their malls.

With global recession looming and unemployment likely to rise, the effects of COVID19 are likely to persist beyond the lifting of restrictions on social gathering. There is also uncertainty about how many retailers will even survive the crisis. We also might anticipate many consumers are becoming accustomed to home-delivery during the current crisis, and may decide a trip to the mall is no longer worth the hassle.

Mall Wars: A New Hope?

The news is not all doom and gloom. Fitch, for example, predict a consumer upswing following the relaxation of current restrictions, through pent-up demand. INTU can also take comfort from their footfall figures for 2019, up 0.3%, and although their occupancy rate is down to 94.9%, it remains high compared to a typical high street. However, INTU's management might want to read a recent articles published by McKinsey and Insider Trends on reinventing the mall.

A typical UK mall might provide food, amusements and a cinema, but they are beginning to lag behind malls already incorporating markets, pop-ups, spas, arts, fitness and well-being centres, expanded high-end restaurant offer, and a better balance between branded and independent stores, to diversify the offer and provide greater differentiation. Progressive malls are also using multi-channel media communication to engage with customers, as well as integrating new technology to improve customer experience e.g. sensors to guide visitors to find a free parking space, together with blending offline and online retail e.g. click and collect. Finally, in certain cases malls are subject to dramatic changes by reducing the percentage of retail space to make space for leisure, hotels and potentially commercial employment and housing. Even smaller malls can reinvent themselves, and New River has been leading the way in the UK repurposing retail space for community use, and fitting a Reel cinema into three empty units in their Ridings Shopping Centre in Wakefield.

The message is clear, adapt or feature on one of my favourite websites – Deadmalls.com, which provides a fascinating, yet haunting photographic record of derelict shopping malls across the USA. The question is whether this also offers a disturbing glimpse into the future of the UK shopping mall.

Some other useful links

https://www.icsc.com/uploads/default/Envision-2020-Report.pdf