

Malls Suffer as Anchors Shuttered

By Michael Hart

For several months in early 2020, the Covid-19 outbreak changed our lives and our routines. Our offices, favorite restaurants and even parks were closed. Many of those places are open again with limitations and we are getting back into our old routines. But there are a handful of places I can bet you still haven't returned to and those are indoor ice rinks, movie theaters and children's activity centers. These places remain shuttered because they usually draw a crowd. That's bad news for them and bad news for shopping malls. Why bad news for malls? Because each of these locations is an example of an anchor tenant for a mall.

Anchor Tenants

What are anchor tenants? Anchor tenants, sometimes called anchor stores, are businesses that usually take up a large amount of space inside a mall, have a strong brand name and are located in strategic locations to create an anchor, or a draw to a specific area. These stores are also often considered destination locations, in other words, they might be the primary reason you visit the mall. Anchor tenants are usually also located at opposite ends of the mall encouraging people to make trips from one end of the mall to the other.

Cinemas are a good example. You might plan to visit the mall, specifically to go to the cinema and see a new film. Cinemas are often located on the top floors of retail centers and if they weren't you would probably never visit that area of the mall. We often arrive early and grab a bite to eat or stay later for a coffee or snack. So not only do we go to the mall specifically to see a film, we usually spend money on other things while we are there.

Children's educational or activity centers are the same. Several parents will drop off their kids for classes and then meet up for a coffee or shop for clothes. If you weren't heading to that particular education center with your kids, you might still drink a coffee, but you aren't likely to have traveled to that mall to do so. You can be sure the children's fashion stores surrounding music and language schools have seen their sales decimated, even after the malls have reopened.

A few anchor tenants such as high-end supermarkets or specialty retailers like Decathlon or electronics stores are now open and are important to keep folks coming into the mall, but they alone can't hope to drive the same level of foot traffic and thus sales that they and these others anchors had previously combined to attract.

Alternatives to anchor tenants

As I mentioned in a previous article on how Covid-19 may impact our lives, there is a danger that our habits may shift. This is especially true around kids' education. For a number of years, some of the most sought-after anchor tenants were kids' education such as math and language schools, but for several months now, parents have been staying at home while their kids take classes on line. And although

taking classes online brings with it some frustrations, it also means no commute and reduces somewhat the scheduling headache because many of these classes can be recorded and replayed at a time that fits the student's schedule better. If the number of educational facilities in malls decline, so will the demand for space from retailers focused on kids.

The cinema which already had the challenge of cheap online films is probably facing an even greater challenge. Many cinema companies, already starved of several months of revenues have no clear date in sight when they will be able to open again. It will be very difficult for many of them to survive. So as streaming services increase, restaurants around cinemas will see their sales decline.

From a landlord's point of view, these anchor tenants will not be easy to replace. They take up large amounts of space, they draw people into the mall and they get shoppers to commit time to staying in the mall which usually means more spending. Many of their anchor tenants' facilities were specifically designed for a single use and can't be easily repurposed. What do you put into space once occupied by a cinema?

Mall owners could convert some of their empty space to offices. This has already been done in some cases before the crisis. Kerry Center in Hedong district for example is already home to a Regus serviced office location. That is actually not a bad use of space as it means a regular base of daily customers – in this case white collar workers, but there are already plenty of empty offices around the city also chasing office users. Expect more landlords to at least consider this possibility.

What Can Malls do?

Malls are in a tough position. If they were to stay closed, their tenants would all have a reason to not pay rent. Even if they open, since many of their anchor tenants remain closed, the overall traffic into the mall has been reduced and the surviving tenants may still not be able to pay much rent. In the meantime, the mall owners need to keep paying staff and do basic routine maintenance. For this reason, it is likely we'll see some shopping malls close before the end of 2020 if things don't get back to normal soon.

A number of malls in the USA open their doors early in the morning to allow 'walkers' usually older folks who live in the area to have a place to walk laps and get exercise. This is especially popular in the summer and winter when weather would discourage people to be outside walking. Since many shops are still closed at this time, it isn't a great win for anyone other than coffee shops, but it might get more folks into the habit of visiting the mall which is at least a way to let folks know what stores do exist there.

Expect malls to start to focus more on promotions and activities to get folks to visit the mall. This is something malls should have been doing all along, but now really need to get right.

Conclusion

As we return to our routines and start going out again, at least one place that likely hasn't yet rejoined our schedule is the anchor store. Most of us have probably never thought of cinemas, ice rinks and kid's

activity centers as something that draws us to shopping malls, but examining our schedules we might now see how they did in fact impact some of our behavior. And while you may not have noticed, I can guarantee malls owners know your shopping habits have changed, even if only by default. The concern is, after these types of stores are able to reopen will we return to our old habits or will malls face yet another big challenge as they try to return to profitability?

This article was published in ***Business Tianjin Magazine*** in May 2020.

Michael Hart is the Managing Director of Griffin Business Management www.griffinbiz.com a real estate related investment and consulting firm with offices in Tianjin.