Retail in transition Are shopping centres still fit for the future?

PwC study on the current challenges faced by retail properties and potential routes out the crisis

January 2023

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Summary

Shopping centers are visited less frequently by consumers - many centers have not recovered from the impact of the COVID-19 crisis. The structural change was already taking place before the pandemic.

Consumers cite the pandemic as one of the main reasons why they visit shopping centres less frequently than they did five years ago. The most popular shopping centre retailers are grocery stores, chemist's shops and bakeries/delicatessens. However, from an operator perspective, the greatest challenge is not the pandemic, but the rise of online retail.

An average of one in every three shopping centres in Germany are considered to be no longer sustainable

According to 62% of surveyed shopping centre operators, shopping centres only offering retail are no longer fit for the future. They require new concepts that account for shifting consumer expectations and tie together online and in-store shopping experiences.

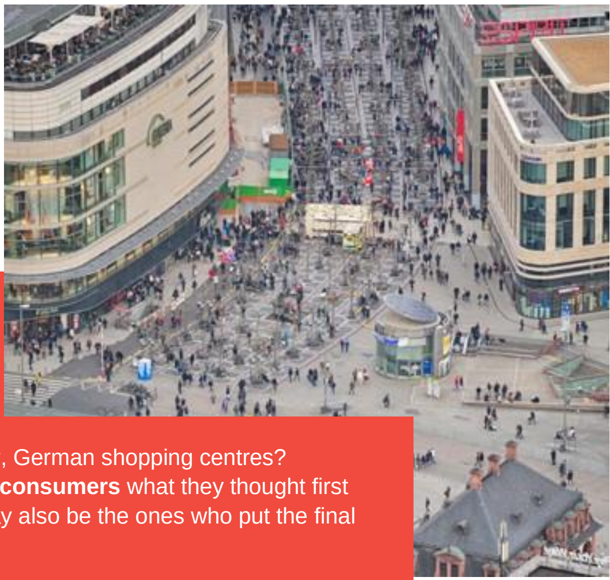
Rising vacancy rates and declining tenant revenues are seen as the first warning signs of flagging shopping centres

According to the surveyed operators, countermeausures should be initiated if vacancy rates hit 15 – 20% or footfall declines by a similar margin. Falling tenant revenues and increasing tenant fluctuation are also valid warning signs for shopping centre mismanagement.

A seismic shift is required in shopping centre use concepts, as consumers seek out more leisure facilities and F&B offerings

The failure to factor consumer demand in to the tenant mix has also been identified as a primary cause of shopping centres faltering. Survey respondents place great value on extensive leisure/entertainment and dining amenities, as well as appealing and welcoming (outdoor) spaces. Mixed-use concepts that offer consumers flexibility and a wide range of options make shopping centres more attractive. If sole retail use is no longer viable, repurposing into a different asset class is also an option. Deciding whether repurposing makes sense, particularly from a cost standpoint, requires careful consideration of a number of different factors.

Introduction



1

What is the current standing of the **retail asset class** and, in particular, German shopping centres? To judge whether shopping centres are still fit for the future, we asked **consumers** what they thought first of all. They are the people who **drive demand and set trends**, but may also be the ones who put the final nail in the coffin for some shopping centres.

Relevant questions to consumers in our survey included:
- Why do you still visit shopping centres? How frequently do you do so?
- Which shops do you mainly visit?
- What are your reasons for no longer visiting shopping centres?

2

It is up to shopping centre **operators and owners** to respond to changing consumer behaviours:
- How do they recognise the leading indicators that a shopping centre is no longer "working"?
- What action do they take to make shopping centres profitable again?
- What solutions do they consider to be successful?

3

The final part of our study deals with the question of how shopping centres can find their way out of this crisis. **Repositioning** is front and centre here, but **repurposing** can also be a valid option.
- Which solutions are financially viable and what is the best way to judge whether they are?
- What conceivable and possible alternatives are there in terms of usage?

Contents

It is important that all stakeholders, and particularly financiers, have full transparency of a shopping centre's current situation and all the available options, so that decisions can be well judged.

1 Status quo and challenges

Shopping centres in transition

Shopping centres are complexes that house service providers and retailers from a variety of different sectors.

The world’s first shopping centre, the Southdale Center, was opened in 1956 in Minneapolis, USA. The concept proved extremely popular among visitors and soon spread around the world. The first shopping centre in Germany, the Main Taunus Zentrum in Frankfurt, opened just eight years later.

From the early 1990s onwards, the concept proliferated around the country. The trend was very popular among the general population and, over the next 20 years, the shopping centre market boomed. However, in the 2010s, a new market emerged in direct competition to the traditional shopping centre concept – online retail. Its biggest driver of growth? Digitalisation. Construction of new shopping centres slowed to a crawl.

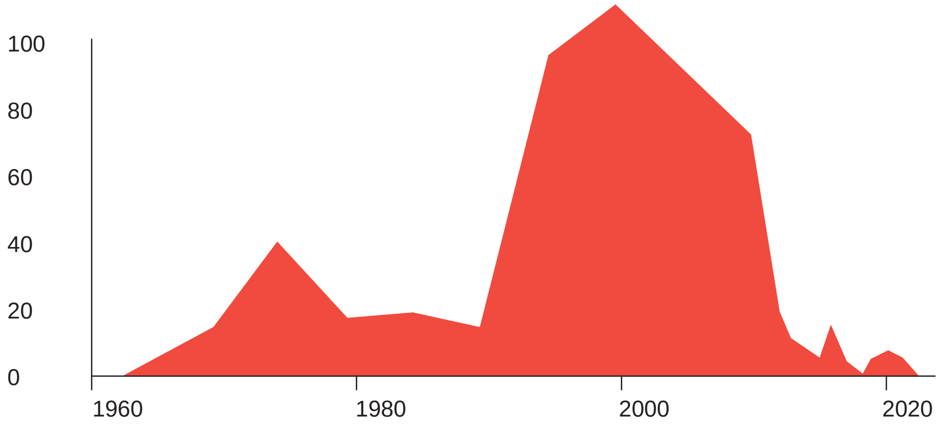
Fig. 1: Market development by sales type

Share of the retail

Source: Statista

Fig. 2: Number of new shopping centre developments in Germany

Number of new constructions



Source: Statista

Traditional shopping centres enjoyed huge popularity for decades, but the sector is now facing major new challenges due to shifting markets and trends.

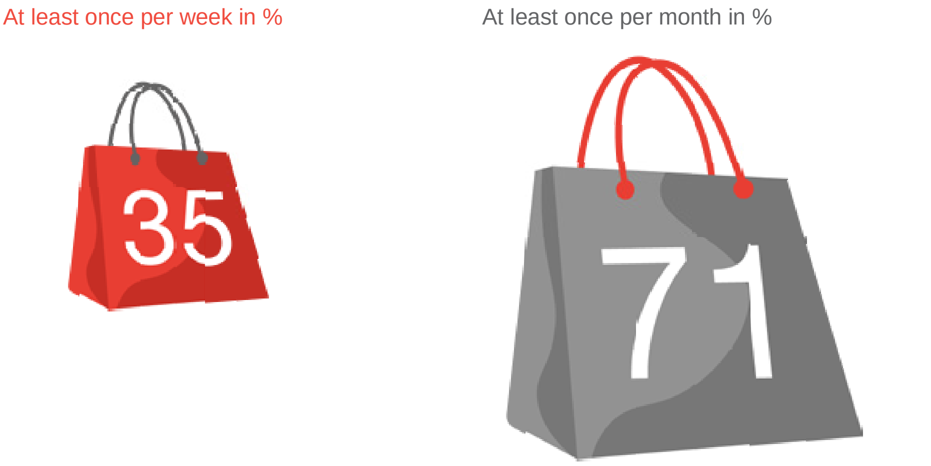
The COVID-19 pandemic gave online retail renewed momentum, but also saw in retailers and shopping centres close their doors and report declining revenues. This new era of retail is also likely to be a contributing factor in the tightening of financing conditions for shopping centre assets. As the underlying conditions change, many shopping centres are no longer considered to be attractive investments. The reality of this is clear to see: no new shopping centres have been constructed in Germany since 2020.

Meanwhile, the average vacancy rate in shopping centres has risen to over 11% – a figure twice as high as that of other asset classes. Prime yields in shopping centres, which stand at around 5% in Germany, are still significantly elevated compared to other real estate asset categories – thanks in no small part to the significant risk of retail tenant fluctuation.

Behaviours and preferences among shopping centre visitors – general

We conducted an online survey of 1,000 people to sound out the consumer perspective on shopping centre visiting habits. The vast majority of survey respondents had purchased at least one item or service in a shopping centre in the past three months. More than one-third had visited a shopping centre at least once a week, and more than two-thirds at least once per month in the same period.

Fig. 3: Number of visits to shopping centres in the past three months



Source:

We asked consumers which stores they visit in a shopping centre and which services they utilise. The most popular were grocery stores, chemist's shops and bakeries/delicatessens.

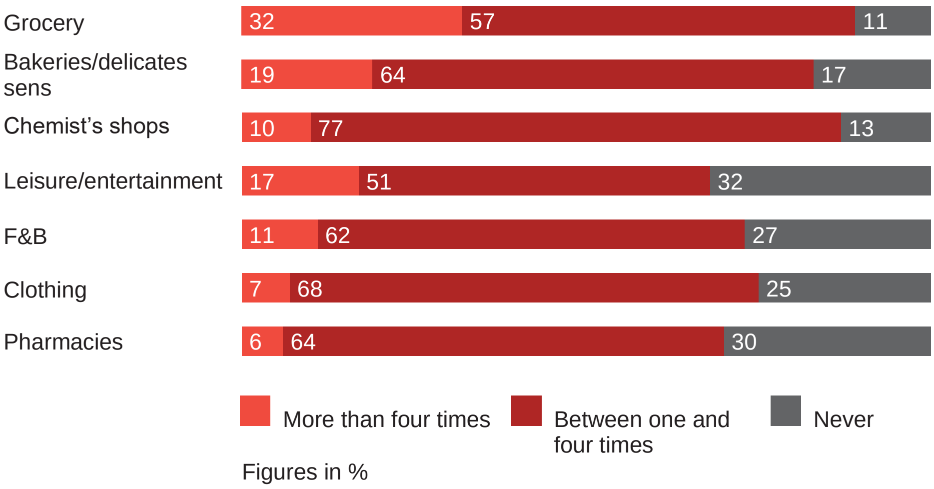
One-third of respondents said that they had made four such shopping trips in the past three months. A total of 75% of respondents said that they had purchased items of clothing, and 73% had eaten out at a shopping centre at least once.

3%

of all respondents never visit shopping centres.

32% of respondents stated that they would be keen to make use of leisure and entertainment facilities but that the range on offer was insufficient. This is because shopping centres generally lack these kinds of amenities, with demand exceeding supply.

Fig. 4: Shopping frequency in the past three months by category



Source: PwC

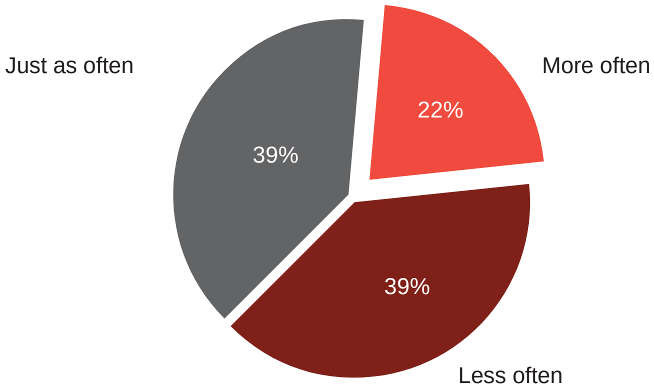
Analysing responses by demographic factors shows a large degree of variation in the frequency of shopping centre visits among different age groups. The key takeaways are that 97% of consumers between the ages of 18 and 39 have visited a shopping centre in the past three months, families with children, and young people between the ages of 18 and 39, visit shopping centres more frequently than they did five years ago, and, as consumers grow older, their desire to visit shopping centres falls.

97% of consumers below the age of 40 have visited a shopping centre in the past three months, primarily to shop at grocery stores, bakeries/delicatessens and chemist's shops.

Behaviours and preferences among shopping centre visitors – a five-year comparison

Even though 82% of respondents were satisfied with the shopping centre they visit most frequently, the number of times they visit their centre of choice has declined significantly over the past five years. Less than a quarter of respondents visit shopping centres more often now than they did five years ago.

Fig. 5: How often do you visit shopping centres now compared to five years ago?



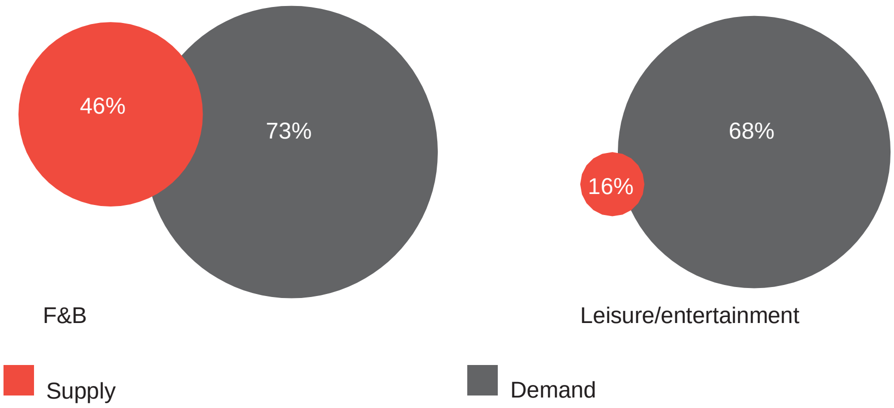
Source: PwC

Another finding from the survey is that it is mostly people between the ages of 18 and 29 and families with children who visit shopping centres more frequently now than they did five years ago. The frequency of visits varies significantly according to people's age and family situation, but, all told, the general frequency of shopping centre visits has declined significantly over the past few years. We analysed supply and demand to pinpoint the reasons for this trend.

One particularly striking outcome is that many shopping centres have a relatively limited range of offerings. There is a particular discrepancy between supply and demand when it comes to F&B and leisure/entertainment. Consumers are particularly keen for their shopping centres to provide more leisure and entertainment facilities.

Less than a quarter of consumers visit shopping centres more frequently now than they did five years ago. Young people or families with children make up most shopping centre visitors. Consumers are mainly looking for a larger range of F&B, leisure and entertainment facilities.

Fig. 6: Comparing supply and demand

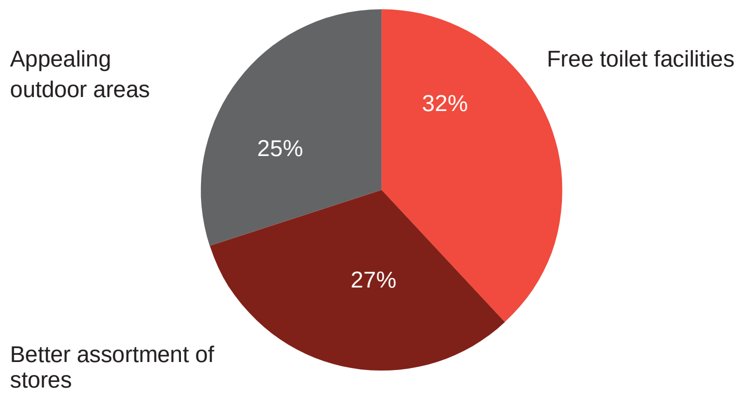


Source: PwC

Behaviours and preferences among shopping centre visitors

Respondents' visions of their ideal shopping centres are very specific. They consider a better assortment of stores and appealing outdoor areas (with more seating and green spaces) to be particularly important in shopping centres, as they often spend several hours there. Free toilet facilities were also viewed as a key element.

Fig. 7: Ways to improve shopping centres from a consumer perspective



Source: PwC

The gulf between supply and demand is reflected in the consumers' responses, with 61% stating that they would deliberately choose a different or new shopping centre for a day out shopping rather than the centre they visit most frequently. A total of 37% would even seek out a different or new shopping centre simply because of the range of dining options.

Shopping centre visitors would like to see a better assortment of stores, appealing outdoor areas and free toilet facilities. They are also willing to travel elsewhere, away from their most frequently visited shopping centre, for these facilities.

Another interesting finding of the survey is that 61% of respondents stated that they would visit a shopping centre without any intention of buying a specific item, and simply to enjoy spending time there. Given the rate of inflation and the associated rise in the cost of living, this trend is likely to accelerate as consumers start to tighten their belts more.

61%

of people visit shopping centres with no intention of buying anything.

Effects of the COVID-19 pandemic

The outbreak of the COVID-19 pandemic and the resulting restrictions and lockdowns posed severe challenges to brick-and-mortar retail. Shopping centres closed completely for a time, or were forced to limit the number of visitors in their stores significantly.

As tenants slid into financial difficulties, many centre operators had to contend with rent defaults or reductions. The pandemic accelerated the online shopping trend and many consumers discovered a quick and practical alternative to the in-store experience. As a result, visits to shopping centres remained less frequent even after measures were relaxed.

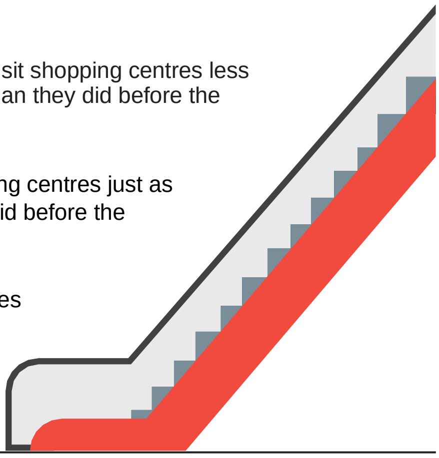
This trend was already emerging before COVID-19 and, according to our PwC Global Consumer Insights Survey, online shopping's market share has remained high since the outbreak of the pandemic.

Fig. 8: How has frequency of shopping centre visits changed since the COVID-19

51% of respondents visit shopping centres less frequently now than they did before the pandemic.

44% of respondents visit shopping centres just as frequently now than they did before the pandemic.

5% of respondents visit shopping centres more frequently now than they did before the pandemic.

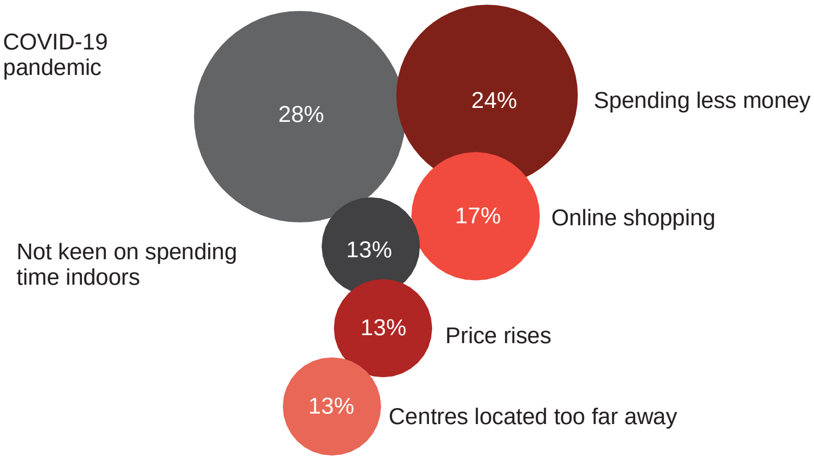


Source: PwC

More than one-third of respondents stated that the frequency of their shopping centre trips had not changed over time, despite the pandemic and the emergence of online retail, and that they visit centres just as frequently as they did before COVID-19. Only 5% of respondents stated that they visit shopping centres more frequently now than before the pandemic.

The surveyed consumers provided a number of reasons for the decline in their shopping centre visits in the past three months; more than a quarter of respondents cited the pandemic.

Fig. 9: What are the reasons for visiting shopping centres less frequently in the past three months?



Source: PwC

Almost one in every four respondents stated that they visit shopping centres less frequently because of a desire to reduce their spending. 17% of respondents referred to the possibilities of shopping online as the reason for their lack of shopping centre visits. Other reasons included the desire to consume less and the distance to shopping centres.

The COVID-19 pandemic is a key factor in declining visitor numbers, but not the sole reason: Many consumers prefer the convenience of online shopping, but consumers’ desire to tighten their belts is also becoming increasingly relevant as prices rise.

Operator perspective

2

Fuelling demand for repositioning and restructuring

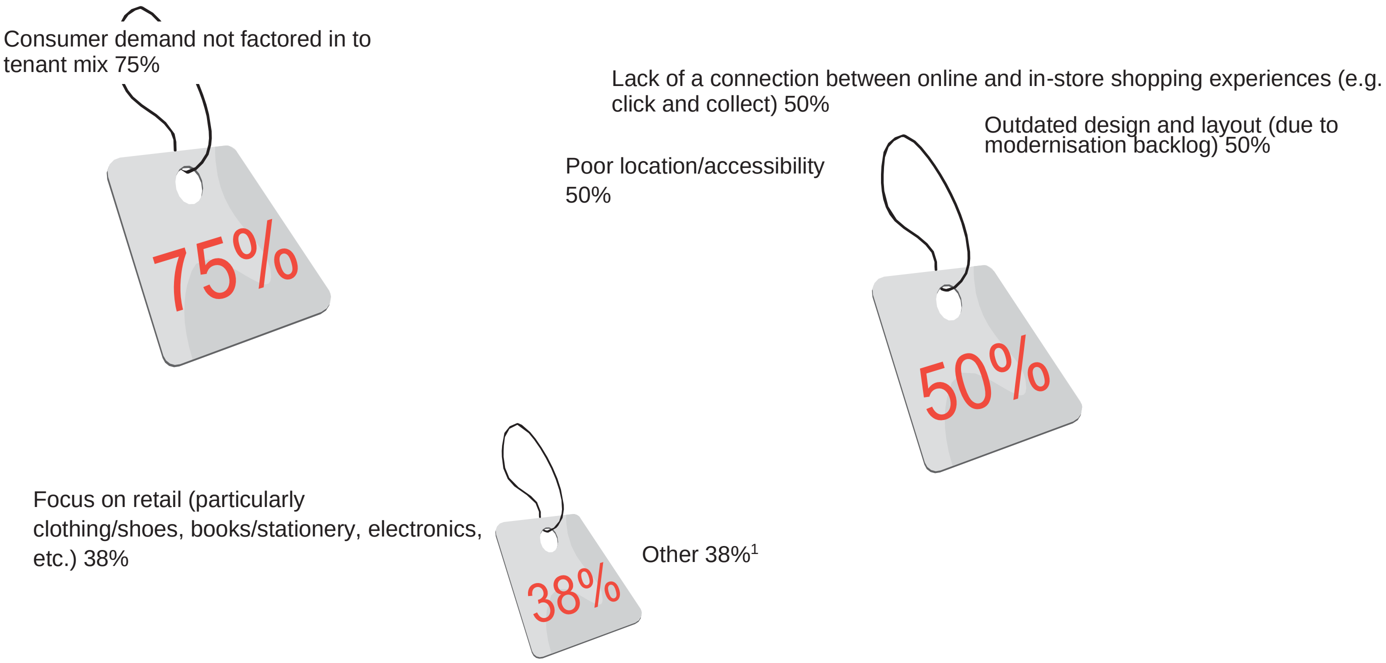
We surveyed shopping centre operators to compare their responses with the data provided by consumers. We also wanted to find out about their perception of the changing conditions. With digitalisation continuing and the associated ascent of e-commerce, shopping centres need to adjust to new consumer behaviours. For many shopping centres, this means a change of strategy.

According to operators, online growth, selecting the right tenants, optimising operating performance and the customer experience are key levers in securing the future viability of shopping centres. Outdated design or allocation of space in retail, or the lack of connection between online and in-store shopping experiences, are factors that may hamper the success and future prospects of shopping centres – just as much as poor accessibility and an unappealing mix of tenants.

34%

of shopping centres in Germany are not sustainable, according to respondents.

Fig. 10: What are the main reasons for the lack of success among shopping centres (from an operator perspective)? Multiple



Source: PwC

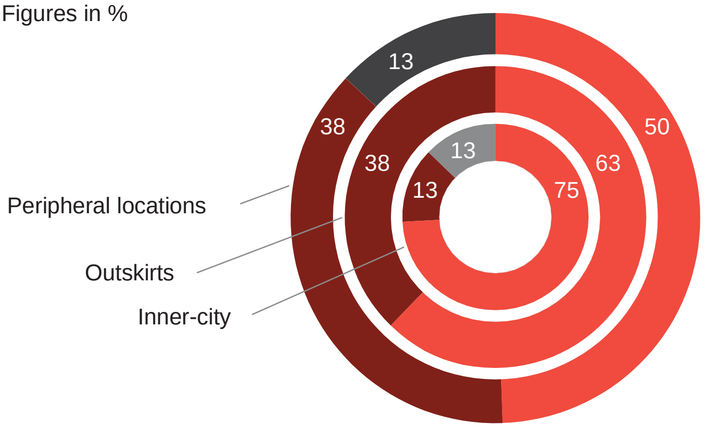
[1] "Lack of genuine shopping experiences with resulting loss of appeal"
"Excess supply in brick-and-mortar retail"
"No clear positioning evident from a consumer perspective"

The main reasons for the lack of success among shopping centres are the failure to factor in consumer expectations to the tenant mix, the lack of an omnichannel strategy, outdated design and poor accessibility.

Respondents believe that an average of one in three shopping centres in Germany are not sustainable moving forward, with inner-city complexes believed to have significantly better prospects than peripheral sites. Good accessibility is still considered to be a pivotal factor in a thriving shopping centre.

Fig. 11: Future viability of sites for everyday requirements

Figures in %



Excellent future viability
Good future viability
Limited future viability
No future viability

Source: PwC

The key drivers of demand for shopping centre repositionining are the failure to factor in customer expectations to the tenant mix, the lack of connection between online and in-store shopping experiences and poor shopping centre accessibility.

Future viability of traditional use concepts

Shopping centres with a conventional use profile, in which the majority of the available space is taken up by retailers, are often considered unsustainable. Operators believe that this is mainly due to consumers shopping more online, footfall declining and revenues decreasing as a result.

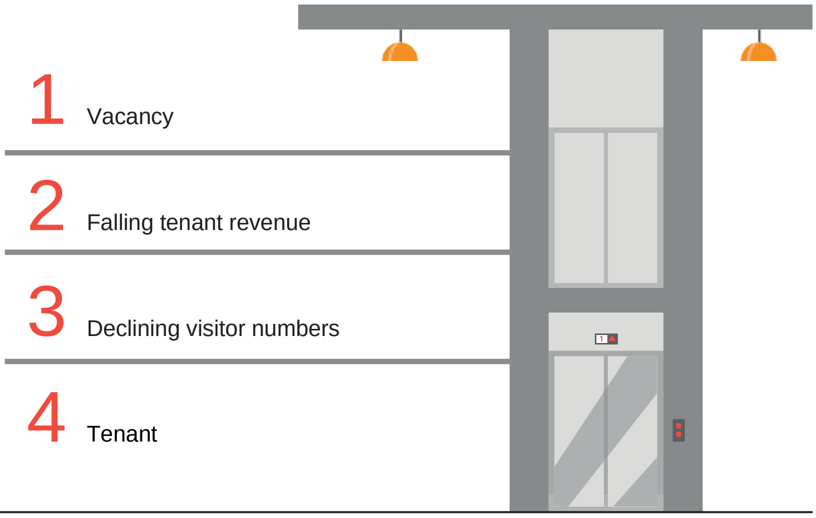
63%

of respondents consider the traditional use concept focused solely on retail as no longer fit for the future.

In terms of judging whether a shopping centre is running well or whether improvements need to be made, 63% of respondents were of the opinion that vacancy rate is the most important key performance indicator when deciding on a course of action. A total of 50% of operators regard revenue as an essential success factor, while 38% see footfall and 63% tenant fluctuation as the most important ingredients in a successful shopping centre.

Vacancy rates, falling tenant revenue, declining footfall and increased tenant fluctuation are all leading indicators of shopping centre mismanagement. If vacancy rates reach 15 to 20% or visitor numbers decline by the same margin, operators see a need for urgent action.

Fig. 12: The most important factors and key performance indicators for a successful shopping centre from an operator perspective



Source: PwC

While vacancy rates, declining revenue and tenant fluctuation can signal a need for urgent action, declining footfall can also serve as the first warning sign. As a rule, the sooner the need for action is determined, the more effectively a crisis can be averted.

15–20%

vacancy rates and declines in footfall mean that it is high time for countermeasures.

Only around one-third of surveyed operators believe that a shopping centre with a traditional retail concept will be able to continue to thrive in the future and increase footfall again. The majority of respondents think that online retail is becoming increasingly popular and that the downward footfall trend will continue.

Below you will find some of the statements provided by operators regarding the sustainability of shopping centres. It is clear that there is no consensus on where shopping centres are heading moving forward:

Operators who believe shopping centres are fit for the future

- 66% of respondents think that shopping centres will always be popular.
- 33% of respondents are of the opinion that people will always shop in-store and that there will be a renewed uptick in footfall.

Operators who believe shopping centres are not fit for the future

- 80% of respondents say that consumers will shop online more frequently.
- 60% of respondents fear declining footfall.
- 40% of respondents point to decreasing revenue and 20% to

Source: PwC

Opinions on the sustainability of shopping centres vary enormously among operators, but one thing is clear: traditional retail use concepts require a rethink, with a sharper focus on online retail.

3 Ways out of the crisis – Possible options

What kind of action needs to be taken? Solutions to the crisis from a consumer perspective

Traditional use concepts featuring non-food retailers are no longer sustainable – from both a consumer and an operator perspective. Many operators are already busy taking action to make their centres more sustainable and attractive for the future, but what measures make sense and what factors can operators use to assess the options available to them?

Essentially, there is a choice between the repositioning and repurposing. **Repositioning** involves analysing a shopping centre to ensure that is has a balanced assortment of stores and entertainment facilities, and evaluating which concepts are sustainable and what role digitalisation will play.

Repurposing is about assessing to what extent available spaces or the entire complex can be converted for alternative uses, such as doctor's practices, offices, care facilities, logistics, etc. This includes reviewing which alternative use concepts may be worthwhile, what factors are relevant to the decision on repurposing and when this decision should be made.

Digitalisation and active tenant management must be considered as essential ingredients in a successful shopping centre.

Options for operators and investors

1 Repositioning
Repositioning is a good short- to medium-term response to changing consumer demand and expectations. The aim of repositioning is to continue using the complex for retail purposes, while attempting to minimise capital expenditure.

2 Repurposing
Repurposing a shopping centre is when a significant part of it is converted for non-retail use. The new type of usage is chosen on the basis of whether it offers a sufficient incentive to potential visitors or users. Analyses must be made to find out whether areas are suitable for partial or full repurposing, with cost-effectiveness being the primary factor.

Option 1 – Repositioning

Repositioning is the preferred option when responding to new consumer requirements in the short to medium term. The aim here is to continue to use the centre as a retail property. There are various approaches to repurposing.
When consumers visit a shopping centre, they are looking for a (shopping) experience above all. Although many discovered during the pandemic that they no longer needed to leave the house to go shopping, the desire to go somewhere to socialise and spend time still draws many consumers to shopping centres.

62%

of respondents under the age of 50 actively visit shopping centres as a leisure activity.

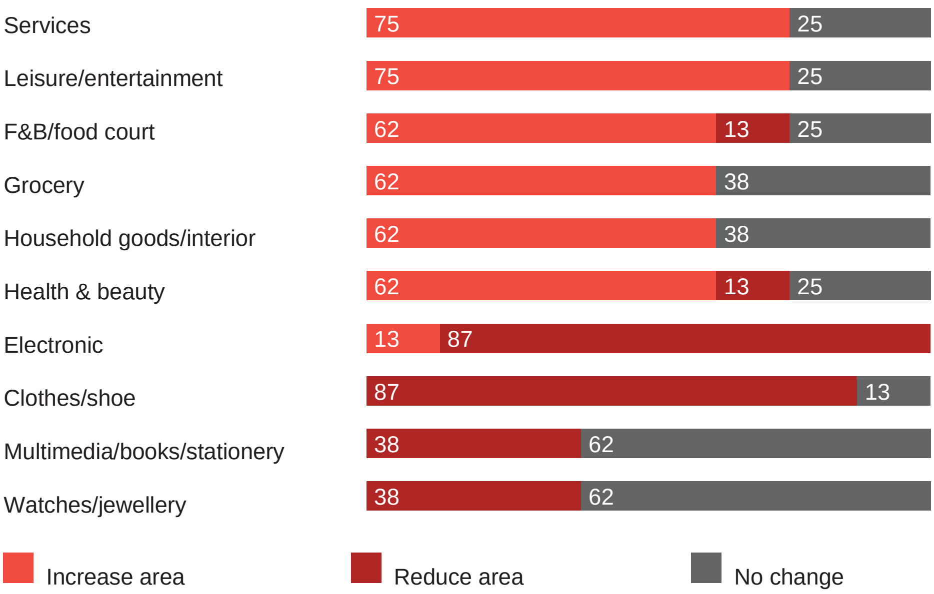
Operators could organise regular events at their shopping centres or add a bowling alley, cinema or themed markets. These ideas are by no means new, and have proved lucrative to many operators in the past.

With F&B and entertainment so important to the shopping centre market, we asked consumers how much space they think should be dedicated to these two areas in shopping centres. In response, they stated that they would like to see more space allocated to dining than to leisure and entertainment, and that restaurants should be greater in number and higher in quality. They believe that leisure and F&B facilities should be a firm fixture in any good shopping centre, and should be of sufficient size too.

In terms of optimum space allocation, the survey indicated that services, leisure/entertainment, F&B/food courts, food retail, household goods/interior and health & beauty should be given more space and areas for clothes/shoes and electronics should be reduced. Regarding the leisure/entertainment data, it should be noted that, by increase in space, respondents referred to the addition of a cinema or bowling alley rather than of multiple smaller leisure facilities.

Fig. 13: Demand for changes in space allocated to retail segments

Figures in %



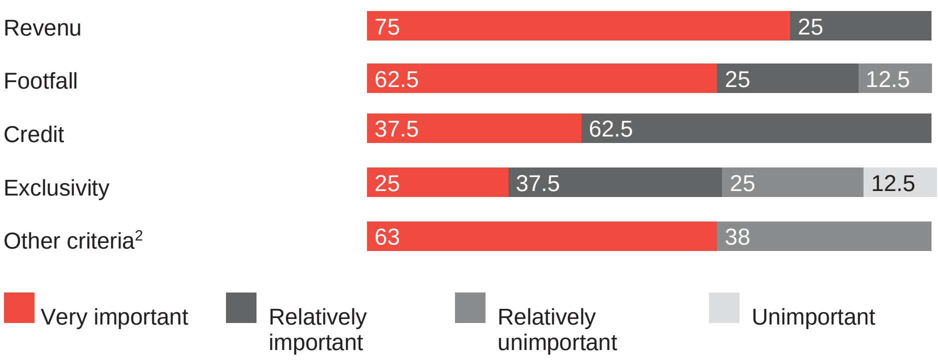
Source: PwC

For the majority of consumers, shopping centres are a place to spend time. This means that areas devoted to leisure/entertainment facilities and food courts should be of sufficient size.

Alongside catering to consumer requirements, choosing the right assortment of tenants is also what makes all the difference when repositioning a shopping centre. Tenancy management and the sector and tenant mix are key success factors in the future viability of shopping centres. Respondents cited the revenues generated by the tenant as the most important criterion when assessing which rental contracts they would want to extend as part of a repositioning strategy, followed by footfall and tenant creditworthiness.

Fig. 14: Criteria for extending rental contracts

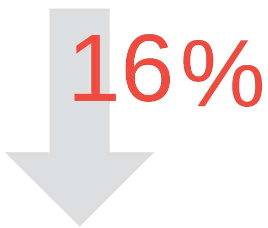
Figures in %



Source:

Other criteria such as rent figures and rental terms, relevance of the tenant in the tenant mix and subsequent usage opportunities are also significant in the view of 63% of respondents.

According to our survey, new leases are currently seeing a reduction in the price per square metre by an average of 16%. This is predominantly the result of ongoing inflation and supply-chain issues, which are applying severe pressure on retail tenants. 75% of respondents would continue to prefer terms of five to seven years on their rental agreements. With anchor tenants, a majority would also prefer terms of between seven and ten years or, in certain cases, longer.



is the current reduction on price per square metre in new leases.

[2] Respondents cited the following factors in “Other criteria”:
“Rent amount”
“Rent amount, term, tenant mix”
“Potential for better/more sensible subsequent usage of rental space”
“Relevance of tenant to the centre and subsequent letting of rental space”
“Potential to pass on operating costs to tenants, pandemic clauses, compliance with opening hours, operator quality”

With prices per square metre down by an average of 16% in new leases, the right choice of tenants, active tenancy management and a solid sector and tenant mix are all paramount to shopping centre sustainability.

As consumers increasingly see shopping as an experience, the concept of showrooming – visiting brick-and-mortar retail stores to research merchandise before purchasing it online for a lower price – is becoming ever more important to consumers and leading to a decline in demand for sales floor area. The trend towards shorter rental terms is also underlined by widespread popularity of pop-up store concepts.

75%

of all respondents consider pop-up stores to be extremely viable in the future.

25%

of respondents believe that in-house logistics concepts are an extremely viable option to avoid losing consumers to online shopping.

Option 2 – Repurposing/alternative use types

If the repositioning measures described in option 1 do not have the desired effect, it is difficult to avoid the conclusion that some shopping centres are no longer (financially) viable as retail-only properties. The next step is reviewing the possibility of partial repurposing. Repurposing is more than changing the use of individual spaces, it involves converting a significant part of the centre for a different usage type.

In mixed-use concepts, a variety of use types – such as hotels, offices, apartments, logistics and care facilities – are integrated into a single shopping centre. The choice of use type depends on whether potential visitors have a sufficient incentive to visit the shopping centre. A use type is always profitable if it leads to high footfall and creates synergies with other forms of use.

Everything close by
In mixed-use concepts, visitors can combine a medical appointment with a visit to retail stores, office workers can grab lunch in the shopping centre and apartment residents can pick up their everyday purchases in the same building as where they live.

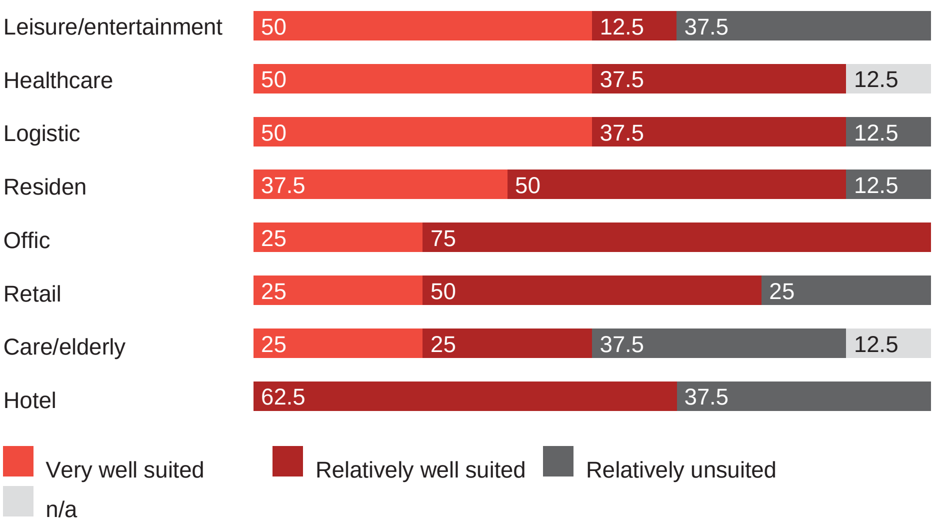
Increasing footfall
Retail store operators benefit in equal measure from mixed-use concepts: if shopping centres also allow visitors to complete everyday tasks, they will increase their footfall.

Mixed use also helps to diversify operators' retail cluster risk. A majority of respondents can envisage care facilities, apartments and offices as alternative use types.

Focusing solely on retail is no longer fit for purpose – worthwhile subsequent use requires significant capital expenditure, with mixed-use concepts proving to be particularly successful.

Fig. 15: Suitability of various usage types to repurposing or mixed use

Figures in %



Source: PwC

The number of shopping centres at the planning stage has declined, but there are now five times as many mixed-use complexes than there were ten years ago. This shows that mixed use offers multiple benefits over single-use concepts:

Disadvantages of single use
Mixed use is more appealing to investors and visitors than single-purpose concepts. It helps to even out structural vacancy rates and make shopping centres more attractive by offering usage types that span multiple sectors.

Avoiding cluster risks
Dividing up a shopping centre into a variety of usage types reduces the cluster risk of retail-only spaces and makes the centre more attractive to all users as a result.

Valuation factors for operators, investors and financiers

Whether repositioning is enough to restructure a shopping centre or more extensive repurposing is required – this is a decision that depends on a variety of factors that must be evaluated and weighed up against each other. The factor with the most relevance is cost-effectiveness. If the action plan is not cost-effective, it makes no sense to proceed, Cost-effectiveness therefore also underpins all of the other elements of the process.

Cost-effectiveness – Is the significant expenditure associated with repurposing worthwhile in the long term? How will these costs be financed? Repurposing is often a costly endeavour, so this aspect must be examined in extra detail. Many measures are not financially viable (at the moment) due to ballooning construction costs. A transparent, integrated and realistic business plan is essential and imperative to acquiring the necessary additional funding!

Location – Is the new use type suitable for the location? This decision should be based on a detailed market and location analysis, flanked by consumer and stakeholder surveys.

Construction viability – Does the structure of the existing retail space even allow conversion into another use type? In many cases, the possibilities for repurposing are limited by restrictions on what can be constructed. Examples include not enough lighting for apartments, no access for logistics and excessive requirements for care facilities. As a result, plans have to be viable from a construction standpoint (and remain within a realistic budgetary framework).

Approvals – Can all of the necessary approvals for repurposing be obtained in a realistic time scale? It should be ensured as early as possible that there are no legal obstacles to the project.

Inclusion of all stakeholders at an early stage – Which stakeholders should be on board with the project? All relevant stakeholders should be up to speed and in agreement with the plans if the repurposing is to be successful. First and foremost, it is important to involve local authorities in the process and work together with them to develop a common, sustainable concept. Other stakeholders such as centre management, tenants and local residents should also be included in a transparent manner.

All told, repurposing is dependent on many different factors and by far the simplest solution. It should only be carefully considered once it becomes clear that not all repositioning measures within the retail asset class are likely to be successful. However, in many cases it also does not make sense to stick with retail usage for too long. Transparent, comparable business plans that should be validated by neutral and objective third parties are an essential part of the process of choosing either repositioning or repurposing.

Whether repositioning is the better option or repurposing as a mixed-use concept is the preferred course of action depends primarily on cost-effectiveness, the local features of the site and the character of the shopping centre.

Appendix

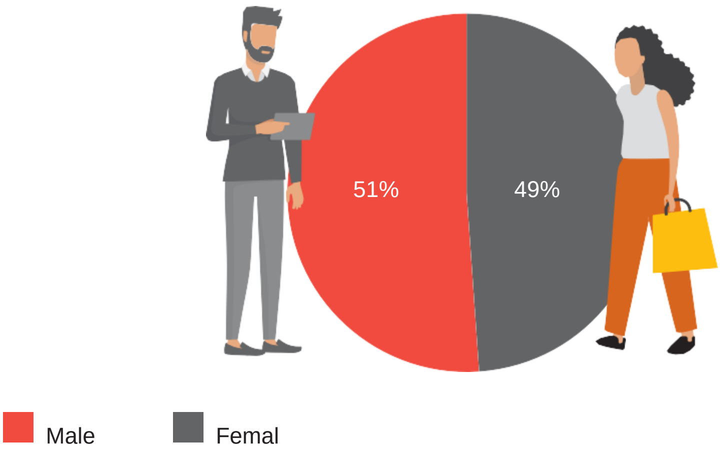
4

Survey statistics

The study is based on an online survey of a representative population group consisting of 1,000 people over the age of 18. The data was gathered in summer 2022.

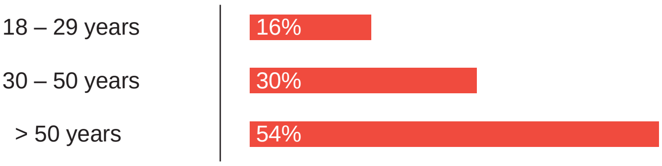
There was an almost equal share of men and women in the target group. The vast majority of respondents, 84%, were over the age of 30 when surveyed; 54% of this subgroup were over the age of 50.

Fig. 16: Distribution of survey respondents by gender



Source: PwC

Fig. 17: Distribution of survey respondents by age



Source: PwC

Besides age and gender, income is also an important factor in shopping centre usage.

The largest subsection of respondents, 27%, earned a net household income of between €2,000 and 3,000, while 29% stated that their income was lower and 37% higher. The majority of respondents came from Bavaria, Baden-Württemberg and North Rhine-Westphalia.

Fig. 18: Distribution of respondents by income (net household income in euros per month)

Source: PwC

Fig. 19: Distribution of survey respondents by place of

Source: PwC

Tenant management

The pandemic clearly showed how important active tenant management is in shopping centres and in recognising and addressing issues in good time. Not only that, the pandemic – coupled with the high level of inflation at the moment and the supply-chain issues that are causing declining retail sales – has also shifted the goalposts and made conditions for tenants and landlords extremely difficult.

Negotiations with retail tenants began across the board at the start of the crisis – pre-empting any political response. Agreements reached between landlords and their tenants resulted in well-managed shopping centres avoiding rent payment issues during the pandemic-related lockdowns and restrictions According to the survey, a well-run shopping centre would renegotiate around 60% of all rental agreements before the end of their terms.

Right now, shopping centres are on the brink of another cycle of change, which is why active tenant management is such an essential component of any properly run centre. Far-sighted management geared towards the sector and tenant mix, securing rental income over the long term, leveraging potential value added and minimising risk is what is needed.

To ensure that shopping centres thrive, tenant management should be focused on the following aspects:

Lease management

Active lease management is vital to the success of a shopping centre. By always having an eye on the special terms, conditions and arrangements with the respective tenants, agreements can be flexible and open to adaptation in response to external factors if necessary.

Anchor tenants

As primary occupants of a shopping centre, anchor tenants account for the largest share of floor space in shopping centres and therefore generate higher footfall. Anchor tenants should be chosen carefully depending on the target consumers. For a shopping centre to prosper, anchor tenants must be retained or suitable replacements found once rental agreements expire.

Tenancy concept

A well-founded tenancy concept is the basis for any successful shopping centre. A sector and tenant mix that is tailored to the specific location and consists of innovative concepts, local and regional retailers and international chain stores is what gives shopping centres their unique selling point.

SWOT analysis

Managing a shopping centre is often about warding off risks and seizing opportunities. The timing of risk and opportunity identification is crucial.

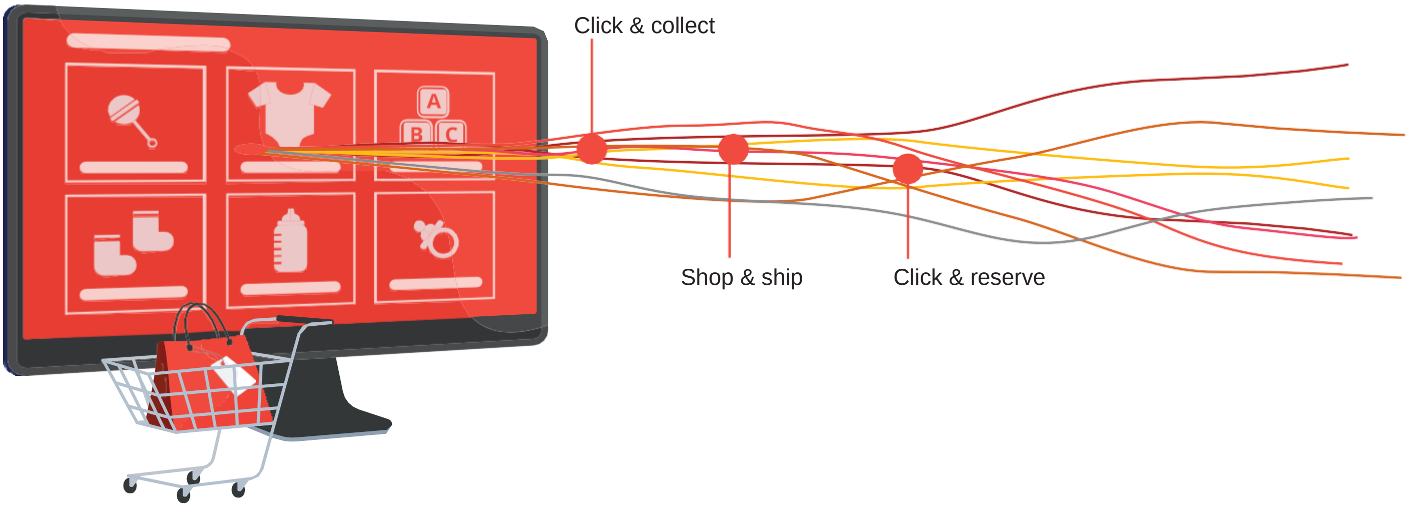
The pandemic shone a light on the critical situations and financial difficulties of many retail tenants. Through active tenant management, problems can be nipped in the bud at an early stage.

Digitalisation – Rise of e-commerce

Increased competition from the now well-established online retail sector is weighing heavily on brick-and-mortar retailers with traditional business models, which is why shopping centre digitalisation is so vital in this day and age. Retailers must combine the strengths of traditional retail with the benefits of online shopping.

There are many ways of using digitalisation to make visiting a shopping centre more attractive. It is inconceivable for retailers not to have a website, but there are numerous digital innovations – many of which are already deployed by large retailers – that are aimed at giving the in-store shopping experience renewed momentum. Some of these innovations will be consolidated over time, while others are replaced by new technologies and strategies.

Fig. 20: Digitalisation – Rise of e-commerce



The following trends are currently emerging in the area of digitalisation:
Apps are being developed to give consumers all the information they need when visiting a shopping centre. They can check up on store opening times, save themselves the trouble of searching for products in-store or seek product availability in advance so that their journey to the shopping centre is not in vain.

The click & collect concept, where consumers reserve products online and pick them up at the shopping centre, is becoming increasingly popular. Some shopping centres also offer click & ship, where items are delivered to the customer's home in the same way as online shopping. Online shoppers often receive vouchers or discounts on their purchases if they pick up their items in-store, which is an attempt to attract more visitors to shopping centres.

That being said, a shopping centre's digitalisation strategy can only be as good as the digitalisation strategy of its tenants. To keep up with the times, it is important that the right mix of tenants with resilient digitalisation strategies is chosen. Shopping centres that do not devote enough attention to sustainable digitalisation will not remain competitive in the long term.

The emergence of online retail may be reducing appetite for in-store shopping, but it is not eliminating it entirely. Shopping centres, department stores and business premises in inner-city secondary locations are particularly affected by this trend.

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