

THE GRAYSON COMPANY | EXECUTIVE BRIEFING

The Great Retail Real Estate Bifurcation

*Why the Mall Is Not Dying — But the Old Mall
Model Is*

A strategic briefing for CEOs and C-suite executives in retail and
consumer brands



The mall isn't dying. Its economic model is.

The mall's decline began decades before Amazon and COVID — in overbuilding and the collapse of the department-store anchor. Digital commerce then stripped away its advantage in assortment and convenience. What remains is not uniform decline but a sharply polarized market.

16.9%

of U.S. retail sales are
e-commerce, Q1 2026

96.4%

occupancy across Simon's
U.S. malls and outlets, 2025

\$799

retailer sales per sq ft,
up 8.1% year over year

Premier malls

STRONGER

Middle-tier malls

REINVENTING

Lower-tier malls

OBSOLETE

Value used to come from aggregating merchandise. Now it comes from aggregating experience.

THE OLD MODEL

Merchandise was the reason to go.

Location

Store

Merchandise

Transaction

THE EMERGING MODEL

The purchase follows the experience.

Destination

Experience

Brand

Community

Customer

Transaction

What digital cannot replicate

Sensory experience · immediate possession · human and social interaction · product trial · entertainment · community · services · events · physical brand expression

Amazon accelerated a transition that started in the 1990s

1956-1990s

Expansion

Suburbs, cars and department stores make the enclosed mall a social institution.

Early 1990s

Saturation

The U.S. builds more retail capacity than demand can support.

Late 1990s

Anchor problem

Department stores lose share — the mall's traffic engine weakens.

2000s-2010s

Digital disruption

E-commerce erases the mall's monopoly on assortment and comparison.

2008-2010

Great Recession

Marginal assets exposed; retail construction collapses.

2014-2019

Retail apocalypse

Visible closures — but really a repricing of physical retail.

2020-2021

COVID compression

Years of structural change compressed into a few quarters.

2022-2026

Bifurcation

Not recovery or collapse — separation into winners and losers.

THE ANCHOR COLLAPSE

The mall didn't just lose stores. It lost the institution that made it coherent.

14.5% → 2.6%

Department stores' share of total U.S. retail sales, 1985 versus today

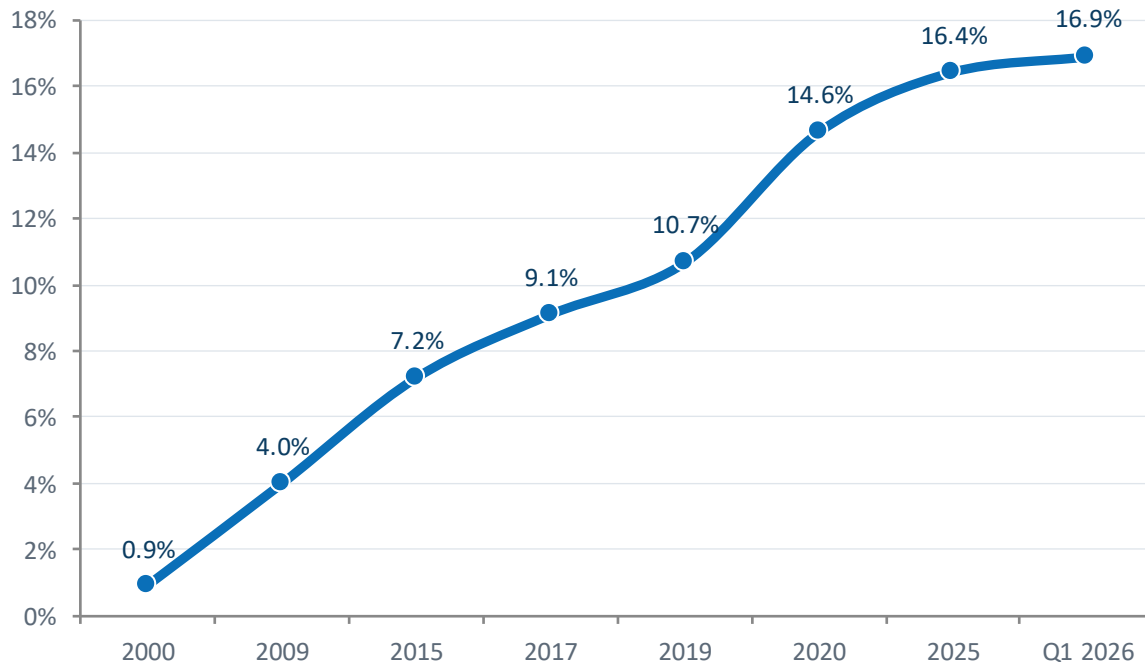
The traditional mall was economically dependent on its anchors.

They supplied:

- Traffic and customer acquisition
- Merchandise breadth and seasonal shopping
- Prestige and cross-shopping
- Leasing credibility for specialty tenants



E-commerce didn't take the sales. It took the reason to make the trip.

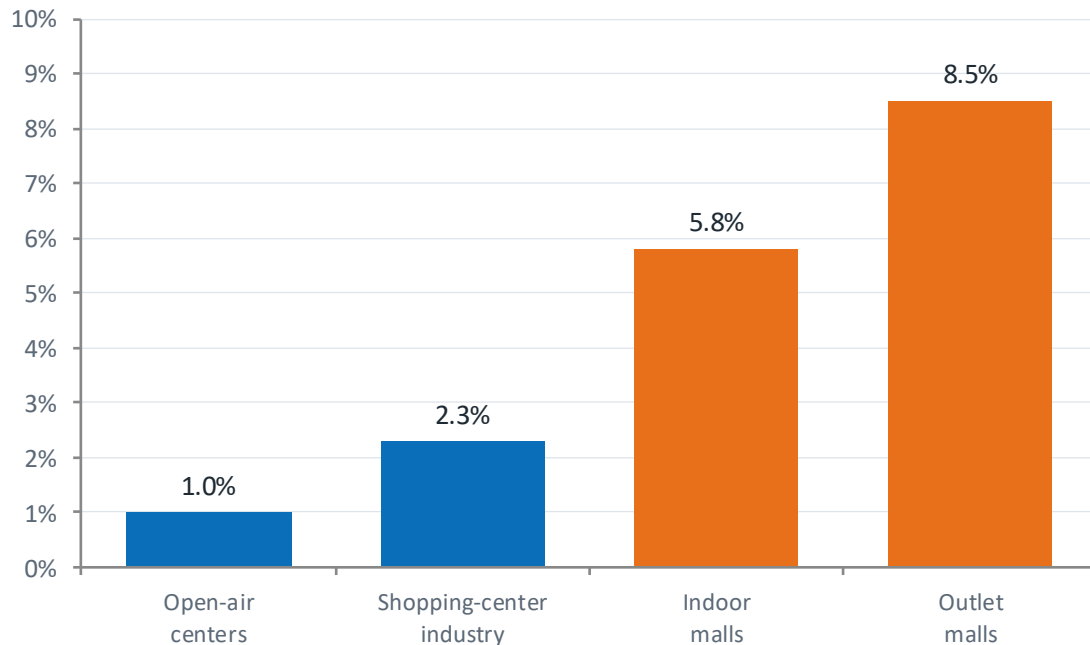


Roughly 83% of retail sales are still offline.

The issue was never substitution.
It was expectation.

The mall historically won on selection, comparison and convenience. Digital commerce delivered all three from the consumer's phone — leaving physical retail dependent on what a screen cannot reproduce.

Traffic isn't collapsing. It's concentrating.



How far 2023 visits remained below the 2019 baseline — lower is better

+1.5%

2024 growth in indoor mall visits

+1.7%

2024 growth in open-air center visits

In 2021 the gap to 2019 still ran 10.7%–15.3% across formats. By 2023 most of it had closed — and in 2024 visits grew again. The formats consumers abandoned are not the formats that are winning.

“Are malls healthy?” is the wrong question. The question is which malls.

CLASS A | PREMIER

\$1,000+

sales per square foot

≈50%

of the sector's asset value sits in America's top 100 malls

CLASS C | CHALLENGED

under \$400

sales per square foot

≈10%

of asset value across the bottom 350 malls

Overall U.S. retail vacancy entered 2026 near 4.4% with historically constrained new supply. If physical retail itself were failing, the whole market would be collapsing. It isn't — it is separating.



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THE PREMIER MALL PARADOX

These are not the metrics of a dying format

Simon Property Group's U.S. malls and premium outlets, full-year 2025:

96.4%

Occupancy

\$799

Retailer sales / sq ft

+8.1%

Sales per sq ft, YoY

+4.7%

Base minimum rent / sq ft

This portfolio is concentrated in high-quality assets. That is precisely the point: as weaker malls disappear, the best ones become scarcer — and more valuable.

Seven forces, compounding over four decades

01

Overbuilding

More shopping-center capacity than incremental demand could ever support.

02

Department-store decline

The mall's traffic, merchandise and credibility engine lost relevance.

03

Alternative formats

Supercenters, clubs, off-price, outlets, power and lifestyle centers fragmented the trip.

04

E-commerce

Centralized assortment — the mall's core advantage — became a smartphone feature.

05

Shifting priorities

Consumers moved toward value, immediacy, experience, food, wellness and community.

06

Demographic shifts

Many malls were built for trade areas that no longer exist.

07

COVID-19

An accelerant, not a cause — it exposed economics that were already fragile.

The takeaway

No single cause can be reversed. This is structural, not cyclical.

The Great Retail Real Estate Bifurcation

CONCENTRATE

Premier destinations

Affluent, growing trade areas.
Luxury, tourism, dining,
entertainment. Dominant market
position and sustained reinvestment.

**These should not merely survive.
They may strengthen as weaker
assets disappear.**

REINVENT

Viable but challenged

Enough consumer base to remain
viable — but the shopping-centre
proposition alone is no longer
sufficient.

**Add dining, fitness, wellness,
medical, grocery, residential,
hospitality and programming.**

RELOCATE & REPURPOSE

Structurally obsolete

Weak demographics, obsolete plant,
excess square footage, poor access,
insufficient capital.

**Highest and best use may no longer
be retail: housing, healthcare,
education, logistics, civic.**

A declining mall is not necessarily a failing piece of real estate. It may be an asset whose highest-value use has changed.

The Mall Value Equation

MALL VALUE =

Destination Strength × Consumer Quality × Experience Density × Omnichannel Amplification

Destination Strength

How compelling is the property itself?

Traffic · tenant quality · anchors · dining · entertainment · luxury · events · access · competitive position

Consumer Quality

How attractive is the surrounding demand?

Household income · population growth · age profile · spending power · tourism · psychographics · category propensity

Experience Density

How much cannot be replicated online?

Product trial · personalization · services · food · events · social interaction · community · expert assistance

Omnichannel Amplification

How much value flows beyond four walls?

E-commerce lift · customer acquisition · loyalty · returns · fulfillment · social engagement · lifetime value

Total store value = four-wall profit + digital lift + customer acquisition + loyalty + brand equity + fulfillment + experience.

Experience Density

The share of the customer proposition that depends on physical presence.

Ask of every location: what happens here that cannot happen equally well online? If the answer is “not much,” the location is vulnerable.

Try	Touch	Taste
Customize	Learn	Socialize
Participate	Get advice	Attend
Discover	Be entertained	Be served

The higher the experience density, the more defensible the location.



From open-operate-close to a four-part capital strategy

MOVE	WHERE IT APPLIES	OBJECTIVE	METRIC THAT MATTERS
CONCENTRATE	Premier destinations with affluent, growing trade areas	Maximize productivity and brand impact	Total omnichannel customer value
REINVENT	Viable centers where experience can create new value	Raise experience density and destination relevance	Dwell time, repeat visits, event participation
RELOCATE	Structurally weak sites near stronger consumer ecosystems	Migrate physical capital toward better demand	Trade-area quality and competitive position
REPURPOSE	Assets whose retail economics are structurally broken	Release capital rather than fight structural decline	Capital released and hurdle-rate discipline

The goal is not simply fewer stores. It is fewer stores that matter more.

OUTLOOK 2026-2035

Consolidation and reinvention — not death

Fewer conventional malls

Some close, some shrink, some go open-air, some become mixed-use districts of housing, hospitality, healthcare and civic uses.

Stronger concentration at the top

Limited new supply plus affluent demand, luxury, tourism and programming give premier assets a widening advantage.

Physical retail becomes experiential

As AI makes digital discovery frictionless, the physical moat shifts from assortment and convenience to human, sensory and social.

Obsolete retail space hit a record 1.4% of total U.S. retail square footage in mid-2025, even as retailers competed hard for high-traffic open-air centers.



A CEO's five questions

1 Is this destination becoming more or less important to our target consumer?

2 What can this location do that digital cannot?

3 Does the location generate value beyond its four walls?

4 Are we allocating too much capital to mediocre physical locations?

5 If we were designing our footprint from scratch today, would this location still be in it?

That last question is usually the most revealing.

The economics of physical retail are being repriced — not retired

THE OLD MODEL OPTIMIZED

Square feet

Store sales

Traffic

Retail locations

THE EMERGING MODEL OPTIMIZES

Consumer value per square foot

Total omnichannel customer value

High-value engagement

Consumer destinations

The winners won't be the companies with the most locations — but those that understand which locations matter most.