

Declining resilience of shopping centres and its consequences - the example of Warsaw

The retail landscape is changing rapidly in all developed countries, driven by several factors that can be grouped into three main categories:

- i) technological advancement and increasing online sales,
- ii) changing consumer purchase behaviour towards convenience, value for money and, predominantly amongst the younger generations, sustainable purchases and
- iii) macroeconomic factors such as policy, economic shocks or cost of living crisis.

Shopping centers appeared in Poland in the mid-1990s as foreign investments of the largest retail operators in Europe. Shopping centres, combining diverse retail formats, are popular for both shopping and leisure. In social sciences, shopping centers are often viewed as spaces for consumption, with numerous publications devoted to the subject of their social impact and influence on urban and suburban structures. The key discussions focus on shopping centres as attractive places for shopping, spending free time, and as new tourist and recreational spaces in cities. Importantly, the pace of retail and consumptions spaces development in Poland has been the most dynamic in Europe. Their rapid development is linked to the post-communism vacuum in the supply of such spaces. In Warsaw and other key cities, this gap has largely been filled by planned retail spaces, in particular shopping centres, while the organic growth of such spaces, was minimal, with only a limited number of high streets in Warsaw. The roll out of shopping centres was distributed both temporally and spatially, initially focusing on major cities, followed by expansion to other towns and smaller cities. Initially, these centres were very popular, driving continuous construction until higher market saturation was reached. More recently, a second generation of shopping centres has emerged, typically repurposed from regenerated old factories and designed to a high standard, with a greater emphasis on dining and other leisure activities.

The newly built shopping centers are becoming competitors for older facilities, which are increasingly struggling with the problem of lack of tenants. One in four shopping centres in Poland is over 20 years old, while those that are over 15 years old, are already considered obsolete. It can be assumed that, considering the life cycle of the retail format, shopping centers in Poland are in the maturity stage, with an increasing number expected to enter the decline stage in the future. A similar process called demalling has been observed for many years in North America, Asia and Western Europe. The process of decline of shopping centres in Poland has already begun and could be further accelerated by the dynamic development of digital tools and their applications in trade, e.g., e-commerce, causing negative economic, functional and spatial effects. In response, many cities have launched initiatives to transform existing commercial spaces into residential and service or service and office spaces. There is a concern that due to the shifts in consumer purchase behaviour, high inflation leading to smaller disposable income the economic viability of shopping centres, may be in question.

This trend is much more pronounced in other western economies such as the U.S or UK. There is therefore a need to study the scale of this phenomenon in Poland and to look for opportunities to reverse the negative trend. This has been evident in recent years, as the market resilience of shopping centers in Poland has been systematically declining, leading to a loss of economic viability and, ultimately, bankruptcy. The resilience of a shopping centre is typically associated with its ability to adapt (react and adjust) to economic, social and environmental shocks. Resilience theories mainly emerge from ecology. According to C. S. Holling, ecosystems are situated in a world of random events and unanticipated disturbances. Therefore, after a shock appears, ecosystems cannot bounce back to the previous state. Rather, they may adapt to the shock by making changes without lurching into a new regime, leading to 'ecological resilience'. Three key factors influencing retail resilience have been identified in the literature. The first is related to 'control'. Being more adaptive and resilient, a polycentric approach to managing shopping centers enables a quicker response to a shock via a wider range of actions than a centralized approach. The second is the 'tenant mix'. A redundancy of retailers supplying everyday demands and/or a mix of corporate and independent retailers can enhance the resilience of a shopping center. The last key factor contributing to retail resilience is the 'typological mix'. Several scholars have found that a main street and a suburban mall in close proximity can complement each other by offering different products and experiences, and they may thus be more resilient in addressing unexpected market turmoil. The stronger retail resilience may emerge from a 'hybrid' of different types of tenant mix. The first research concerning the resilience of shopping centers was published in 2011 by Wrigley and Dolega. They used the adaptive resilience concept to analyse the influence of the Global Financial Crisis on retail sector. The conceptual framework of retail resilience was used to explain changes in urban retail systems, and later a series of articles on this issue appeared in the *Cities* journal. Some of the articles paid attention to the resilience of city centers, downtown areas and the role that shopping malls were playing in the process of change. Others referred directly to the dependencies between urban planning and retail resilience. Dolega and Celińska-Janowicz adapted the concept of adaptive resilience to the contexts of retail and town center dynamics, and on the basis of the adaptive cycle framework they consider how retail sectors and town centers can adapt to changes. In the following years, the topic of retail resilience did not receive much attention, which changed with the outbreak of the COVID-19 pandemic. Many articles concerning this issue were published in 2020–21. These were articles concerning the concept of resilience at a theoretical level, as well as analyses concerning particular cities and countries: Lisbon, Würzburg and Scotland. Shopping malls in Poland were the undisputed market leaders in the retail sector until the COVID-19 pandemic. They were at a finish of growth phase of the adaptive cycle. However, as this phase approached maturity, new growth problems emerged, constituting derivatives of shopping malls' success. The growing total retail space as a consequence of new shopping malls' openings increased the competition intensity. Many tenants in these facilities, in particular small local entrepreneurs, were dissatisfied with the ratio of profits to rental fees. The lease conditions made it impossible for them to terminate contracts before the lapse of usually five years from signing. The owners of shopping malls did not react to the growing dissatisfaction of tenants with selling conditions. The impact of COVID-19 on shopping malls was clearly negative, mainly due to temporary forced closure periods and restrictions on

gastronomy, culture, sports and entertainment services, but also due to customer fear of contagion. Many dissatisfied tenants used the pandemic as an excuse to terminate contracts with shopping malls or negotiate more favorable selling conditions. Entrepreneurs who hadn't imagined doing business outside shopping malls after the pandemic noticed the need for more diversification by selling in high streets and using e-commerce channels. The pandemic revealed problems with financial sustainability for the owners of shopping malls. Their high level of indebtedness exposed the risks of financing them to their banks, which also significantly limited shopping centers' flexibility in offering better conditions to tenants. It can be stated that the resilience of shopping malls is declining, and that they are entering a consolidation stage of the adaptive cycle. The impact of COVID-19 on shopping malls differs dependent on the variety of offered services. A new generation of shopping malls with a wide range of entertainment and gastronomy services, as well as shopping malls located in downtowns, turned out to be much more vulnerable to the shock than district shopping malls and those of the older generation with a simple commercial offer. One of the most profound 'shocks' to the retail system today is the rise of online retailing. Retail economists have explored the economic impacts of online retailing in depth. They consider brick-and-mortar and online retailing to be different 'channels' that can combine in two key models. The first model is 'multi-channel' retailing, in which the online channel is primarily used as a means of advertising (e.g., an online catalogue) to boost sales in stores. In the second and more recent model of 'omni-channel' retailing, shops expand their sales through online retailing, while online retailers also open shops and expand into brick-and-mortar retailing. The influences of these shocks on the shopping space are insufficiently discussed. A researchers suggest that online retailing challenges city center retailing while also bringing about opportunities: shops in the city center can complement online retailing with more attractive physical spaces for touch-and-feel than other locations. As it looks toward to the future the retail real estate industry finds itself at a crossroads. One fork leads to business-as-usual—a predictable, problematic which the weakest shopping centers will be continue to close due to lack of customer interest, changing demographics, or the inability to develop a sustainable alternative to digital competitors that are growing more powerful every day. The other path takes to an industry future. With innovation and a customer focus, shopping centers can meet the needs of new and future generations of shoppers. The industry's future potential rests on the ability of operators and retailers to relearn the rules of an ever-changing game. The competitive environment is changing, forcing shopping centers operators to rethink all assumptions about the industry, from how many and what kind of tenants need to house and how large must be in order to be successful, to how, why, and where sites are selected, the role of anchor stores, and the necessity of incorporating nontraditional elements such as housing, entertainment, and healthcare into design. Shopping centers operators and tenants must find ways to coexist with digital retailers, embracing them as partners rather than insisting on viewing them as enemies bent on disruption and unsustainable predatory price competition.

Research also suggests that in the near future, retail centers are likely to face several key challenges including the fragmentation of trade, intensifying competition between new and older facilities providing a diverse offer, and the shifting attitudes of consumers towards online channels. Therefore, a clear vision based on data-driven insights is necessary to quickly respond to changes in consumer preferences and adapt offerings to meet their needs. These

trends are even more pronounced in Western economies such as the U.S. and the UK, offering potential lessons for Poland.

Finally, the impact of Covid pandemic and post-Covid shifts in consumer behaviour, combined with high inflation reducing disposable incomes, may further threaten the economic viability of Warsaw's 57 shopping centres. As such, this research seeks to examine recent changes in Warsaw's retail landscape and shifts in consumer trends to evaluate their current economic performance and resilience. A better understanding of their response to ongoing changes and pressures will help inform the development of relevant mitigation measures and strategies for the post-Covid retail environment.