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Conference Paper

The reshaping of retail landscape in Greater Lisbon: do shopping centers have a future?

54th Congress of the European Regional Science Association: "Regional development & globalisation: Best practices", 26-29 August 2014, St. Petersburg, Russia

Provided in Cooperation with:

European Regional Science Association (ERSA)

Suggested Citation: TEIXEIRA, José (2014) : The reshaping of retail landscape in Greater Lisbon: do shopping centers have a future?, 54th Congress of the European Regional Science Association: "Regional development & globalisation: Best practices", 26-29 August 2014, St. Petersburg, Russia, European Regional Science Association (ERSA), Louvain-la-Neuve

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THE RESHAPING OF RETAIL LANDSCAPE IN GREATER LISBON: DO SHOPPING CENTERS HAVE A FUTURE?

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Abstract – In the early 70s, the retail landscape of the Lisbon Metropolitan Area (LMA) was yet mostly confined to the Lisbon downtown. In the mid-80s, two main retail concentrations emerged in the outside of the city center and, in the early 90s surge the first large shopping center in the periphery. Since that time malls proliferate, diversify and acquire hybrid formats. The catchment areas overlap and each of the centers develops differentiation strategies to attract customers in a very competitive market. Each of these waves of change reshaped the retail landscape and altered profoundly consumer expectations. The recent crisis is erasing the “middle class” and had a strong impact on consumers’ behavior. Successful shopping centers must be able to meet the challenges posed by high levels of market saturation and the lasting effects of the crisis.

Keywords – Shopping centers; Urban development; Retail; Commerce; Economic crisis; Portugal.

1. The Issue

In Portugal, until the mid-80s of the 20th century, retail was seen as a complementary use of dwelling. Retail often occupied the ground floor of buildings, either in the central areas that displayed the most noble and qualified functions, and residential areas that allowed for proximity. In the urban setting, retail was usually located in buildings and it shared the landscape with housing and services. However, the economic and social changes induced profound changes in organizational forms of retail and its relationship with the city and the territory, redefining the relationship with other urban functions and consumers themselves.

The real estate companies have realized the importance of investing in commercial spaces as elements that explore and potentiate other urban functions. Among the products of retail real estate, shopping centers of large and medium size play a key role by taking advantage of the

accessibility provided by roads and highways, which generate further urbanization. Traditional intra-urban commercial hierarchies were deeply challenged: specialized companies involved in a fierce competition for the best locations, prices of soil soared and, in many cases, concentrated supply and "instant" commercial space preceded demand, strongly conditioning urban growth on city outskirts. These processes have surged mostly in metropolitan areas where there have been more intense but quickly spread to other levels of the urban hierarchy.

The shopping center is thus a real estate complex product that displays simultaneously the following features: the integration of stores in the same building or connected buildings, professional management and provision of public services, diversified tenant mix, the presence of anchor shops, extended hours in all units and parking adapted to the specificities of the population to be served. These intrinsic requisites allow for multiple combinations, depending on size (from small centers in downtown district to the supra-regional center), tenant mix (more diversified or specialized), anchors (one or more, food, non-food, leisure spaces), urban insertion (downtown, center expansion areas, peripheral ring) and trade/leisure relationship. The range of possible combinations justifies the versatility of the concept without compromising the basic principles that characterizes it.

Until the 70s, the classical models of central places and bid rent theory reasonably explained the organization of urban networks and the internal structure of cities. However, the decline of political barriers, the ever-increasing openness of economies and the extraordinary technological development and strong mobility that characterizes contemporary societies led to profound changes in cities and urban systems. Lisbon was the capital of a vast empire that suffered from a political and economic inability to organize its territory and so the city grew structured to the size and image of the mainland. However, with the integration of Portugal in the EEC (1986) and the rapid pace of globalization, Lisbon acquired a different scale in line with other Iberian and European cities, which profoundly altered its internal structure. Soon, real estate investors in Lisbon were the same as the ones investing in Madrid, Barcelona or any other European or global city. These agents study and rank market segments like housing, industry, logistics, hotels, retail and offices. This raises the question on how Lisbon's market segments compare to any other city? What are its investment opportunities? A city is build and rebuild on this tug-of-war at its own scale and other scales, in particular at the Iberian scale in the case of Lisbon. After all, what you do in Lisbon is also (perhaps mainly) the result of what is done (or not done) in Madrid or Barcelona.... And what is done in each of these cities mainly reflects the role they play or are expected to play in the Iberian market(s).

The fundamental question is the return on investment of large real estate companies. In the 80s, retail ceased to be just a residual function confined to city centers and supplementary to housing on the ground floor of buildings to become a very profitable business. The surge of investment in large multifunctional centers combining commerce, catering and leisure led to the appearance of buildings with tens or even hundreds of thousands of m² of Gross Leasable Area (GLA). These buildings very often become iconic in the urban landscape by their remarkable size and architecture. These are the reasons why many international players and financial funds bet on these products. Much of the success of these shopping centers is related to the inability of the traditional centers of commerce to meet the emerging demand in the era of the automobile and consumption. This age imposes a redefinition of the concepts of accessibility and centrality and necessarily a new relationship between retail and urban centers.

In traditional models “downtowns” were the most central and accessible areas. The urban growth and congestion and the increasing reliance on cars made downtowns to become less “central” and less “accessible”. In turn, large shopping centers emerge and through their intrinsic characteristics impose new urban centralities. From a functional point of view, they concentrate many or more functions than traditional centers in an organized space that offers quality, comfort and safety. From a geographical point of view, they “approximate” strong concentrations of population in residential areas with shortage of supply and poor accessibility (that rely on the use of the car in highways and expressways). Overall, the retail function (and this new mix of functions that often combines offices, housing and leisure) deeply affects the territory, either in a positive or negative way. In the current consumer society these spaces are the new centers of the multinuclear city ... and of the global city that reproduces until saturation in the system that gave birth to it.

The cycles that characterize the real estate market are often very unstable and unevenly perceived by the various agents in business. Broadly speaking, real estate cycles are longer than economic cycles, which explains why their adjustment is often so abrupt and transition periods are turbulent. When the economy was growing, the demand for commercial space was higher than supply, which attracted further investment in the sector and a higher number of commercial spaces. In a booming sector, prices of land and of real estate products soared. Soon, the oversupply of commercial spaces would restore the market to its equilibrium and strategies for product differentiation could not prevent the contractionary movement. Over and above that, agents are often shortsighted and they fail to anticipate the different stages of the business cycle. Besides, open market economies imply that real estate markets can be

going through different stages of the cycle at the same time but in different countries. This fact induces agents to try to profit from it by anticipating or delaying the “normal” evolution of the real estate cycle in a given market.

The crisis of 1998 seem to support the critics of the prevailing growth model. In injured economies, like the Portuguese, there was a growing awareness that economic growth was not irreversible. The purchasing power in Portugal shrunk significantly and real estate investment and private consumption sunk. Cranes nearly disappeared from the skyline of cities and the paradigm of compact cities is strengthened, leading to an urban regeneration and rehabilitation of traditional neighborhoods and a return to the city center. Malls have seen better days and the city center seems to regain some the old splendor.

2. Short summary on the evolution of shopping centers in Portugal

In Portugal, the first “shopping centers” emerged in the early seventies in the main cities (Lisbon and Porto). They were small structures with specialized businesses, embedded in multifunctional buildings and integrated and adapted to the urban tissue. They rarely had specialized management though. Indeed, they were more like “commercial condominiums”. Despite their small scale in terms of number and size of units, these “shopping centers” brought together a diversified offer in one place only, usually benefiting from good accessibility, making the transition from the traditional retail model in urban centers a success. In Lisbon, the first of these small structures were located near the exits of the underground but in the end of the decade they were associated with supermarkets and becoming “neighborhood centers” of new residential areas.

In fact, it was only in the mid-eighties that the first true shopping centers began to appear (Amoreiras Shopping Center, 1985; Fonte Nova, 1985) benefiting from the increase in purchasing power and from the stability of adhering the EEC. The former shopping center became a benchmark of regional shopping and the latter a neighborhood center. Both were designed, planned, constructed and managed by specialized companies. They still prevail on the urban setting due to their architecture, size and composition of *mix* (anchored in a food unit). Notwithstanding, shopping center expansion was restrained until the end of the decade. Indeed, they were constrained not only in size but also in their locative pattern and supply offer.

Shopping centers would be part of the urban landscape in the 90s through the expansion of medium and large centers, which combined specialized retail with food supply (i.e.,

hypermarkets or supermarkets). Their dimension increased, their architecture became more refined and car parks acquired a greater capacity and they became almost always free.

Large shopping centers are mushrooming on the outskirts of Lisbon and Oporto and its spatial diffusion respected the urban hierarchy. Metropolitan areas and major coastal cities benefited the most but the concept quickly spread to district capitals in the interior of the country as well as and other urban centers of moderate size. Shopping centers adapted their dimensions to that reality but they remained anchored in hypermarkets. In larger centers, however, hypermarkets lose exclusivity as anchors, sharing this role with specialized megastores, restauration, cinemas and entertainment. Simultaneously, some units start to surge in the center of large cities [Via Catarina (1996), Porto; Chiado Warehouses (1999) in Lisbon], contributing to urban renewal and bringing new life to these areas.

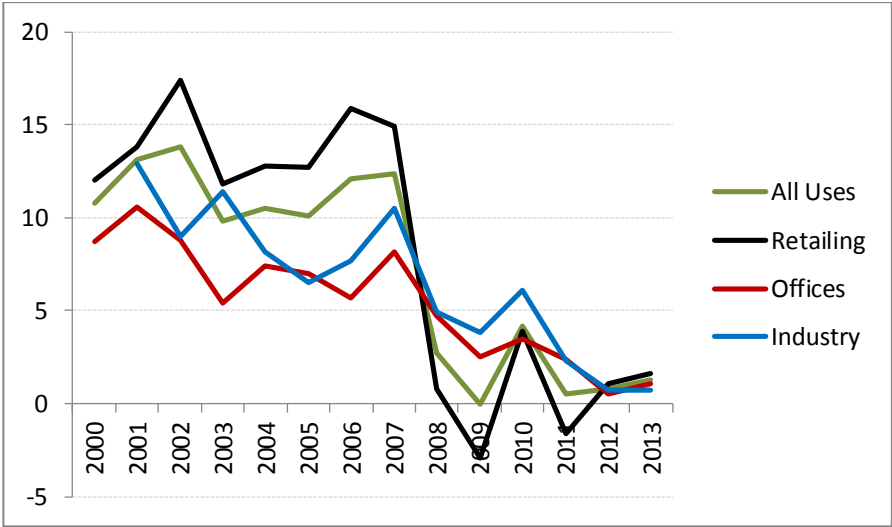
In the transition to the new century, the planning and construction of shopping centers denoted an increasing care about the architectural style and how it fits the surrounding environment. At the same time, new formats surge, like outlet parks and retail parks, aiming to conquer other fringes of the market. The formers arise in the outer ring of the metropolitan areas of Lisbon and Oporto; the latters, placed mostly in the Lisbon Metropolitan Area, also appeared in medium-sized cities like Coimbra, Albufeira, Leiria and Aveiro.

Most shopping centers, in particular medium, large and very large, reproduce part of the mix of other commercial units, involving some of their business partners. This strategy induces a tendency to mimicry the offer and standardize the mix, blurring the differences between units in heavily urbanized areas where the construction is higher. Still, they allow for the presence of brands in territories that could not benefit from them otherwise.

This evolving process reflects profound changes in the key actors involved. The first shopping centers were launched by promoters of housing and real estate that were looking for ways to profiting from the residual spaces, like ground floors, that were useless for other purposes. Promoters became more and more specialized in the development and management of shopping centers. Competition became fiercer and initial “amateurism” gradually faded. More recently, the entry of new partners in the business – Investment Funds – brought new models of growth to the sector, where financial assumptions play an ever-increasing role. For shopping centers, the invisible face (financial business) becomes potentially more interesting than the visible face (retail). As business partners, tenants also changed profoundly: for consumers, shopping centers became places that concentrate a huge diversity of brands; for shopping center managers it means negotiating with a limited number of economic groups

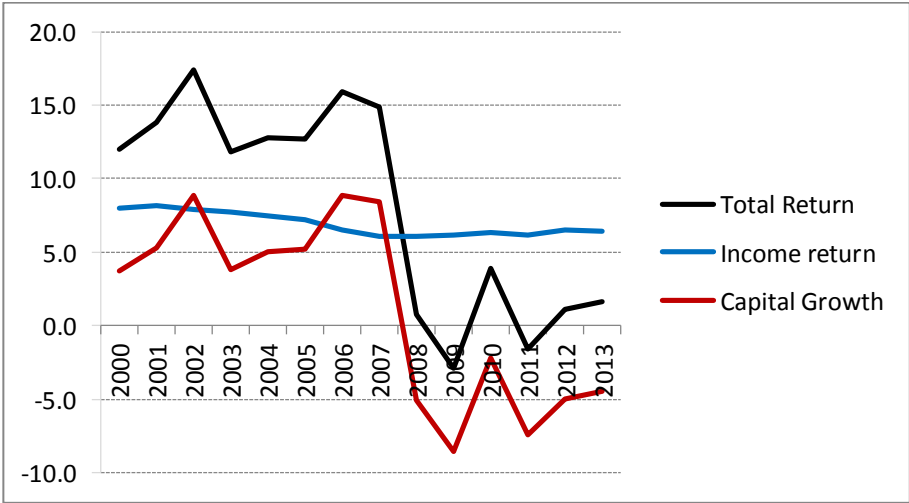
that use their brands as a way to exert market power and obtain better conditions for staying in the centers and/or integrating a *mix* of new ventures.

The interest in investing in commercial real estate reflects particularly high return compared to other types of real estate investment. Until 2007 the commercial real estate was the one with higher returns; in 2008 the crisis is felt immediately and abruptly in all sectors, but commercial real estate is the hardest hit (see Figure 1) . From 2012, there appears to be a slight upward trend, led by trade. But the figures are not comparable with those recorded 6 years ago! The total return results from the combined effect of income and capital growth. Rents were established in contract with tenants; so their values have not yet suffered great erosion, despite slightly declining trend; the "collapse" in profitability primarily reflects the effect of the drop in capital growth (see Figure 2).



Source: IPD Portugal Annual Property Index.

Figure 1 – Evolution of total return, by sector (2000-2013)



Source: IPD Portugal Annual Property Index.

Figure 2 – Evolution of Retail Total Return, by its components (2000-2013)

Table 1 summarizes the main stages in the development of shopping centers in Portugal and associated features.

Phase	Product	Characteristics	Agents
Antecedents (70's)	Galleries and small shopping centers ("commercial condominiums")	<ul style="list-style-type: none"> ▪ One or two lower floors of multifunctional buildings ▪ Urban location in center expansion areas (in Lisbon near the underground stations) ▪ Adapted facilities ▪ Stores are sold ▪ Specialized mix ▪ Unprofessional management ▪ No parking 	Developers of residential property and offices
Introduction (mid-80s)	Small and medium-sized shopping centers	<ul style="list-style-type: none"> ▪ One or two lower floors of multifunctional buildings ▪ Urban locations with good accessibility ▪ Own facilities, designed from the ground ▪ Leased stores ▪ Specialised mix ▪ Large food stores as anchors ▪ Professional management ▪ Parking 	<p>Developers of residential property and offices</p> <p>Introduction of professional management</p>
Growth (90's)	Large and medium-sized shopping centers	<ul style="list-style-type: none"> ▪ One, two or three floors of multinational buildings ▪ Urban or suburban locations with good car accessibility ▪ Own facilities, designed from the ground ▪ Strengthening of restaurants and leisure ▪ Diversification of anchor stores ▪ Leased stores ▪ Professional Management ▪ Parking (free on the periphery; paid in urban areas) 	<p>Design, development and management by specialized firms</p> <p>Entry of international developers</p>
Diversification / Segmentation (1st decade of this century)	Large and medium-sized shopping centers	<ul style="list-style-type: none"> ▪ Maintenance of most of the above characteristics ▪ Diversification of international developers ▪ Internationalization 	Property or ownership: Real Estate Funds.
Saturation / Crisis (2008...)	<p>Retail Parks</p> <p>Outlets Centers</p> <p>Leisure Centers</p> <p>"Hybrid" Products</p>	<ul style="list-style-type: none"> ▪ Maintenance of most of the above characteristics ▪ Few new projects ▪ Closure of commercial condominiums (Phase 1); ▪ Increased vacancy rates ▪ Marked decline in total return ▪ Attracting new brands with strong attractiveness (eg Primark) ▪ Strategies to dissimulate the difficulties of operating 	

Table 1: Main stages in the development of shopping centers in Portugal

3. The shopping centers and the reshaping of retail landscape in Greater Lisbon

The construction of Baixa Pombalina (Lisbon downtown), after the earthquake of 1755, is often referred as a pioneering and exemplary case of urban retail planning. This allowed for the appearance of specialized retail in the city of Lisbon that allow it to keep its hegemony until the third quarter of the twentieth century. The expansion of the city over time reinforced the movement of concentration and specialization of its main center. Residential neighborhoods kept expanding even though lacking equipment and infra-structure. There were few who benefited from an offer beyond the typical daily used products.

In the 50s and 60s, internal migration flows driven by industrialization led to a rapid population growth of the cities surrounding the capital. Still, this growth was not followed by an investment in proper commercial equipment. The few existing economic groups favored the investment in the industry and banking and foreign investment was constrained by the political regime. Low income and weak purchasing power discouraged investment in retail, which remained heavily fragmented, archaic and almost exclusively oriented to a rural demand.

In the 60s, we witnessed a slow transformation of the commercial structures (introduction of free service and creation of supermarkets) within the current Lisbon Metropolitan Area (LMA) reflecting the improvement in purchasing power due to the industrialization and also the gradual acquisition of urban habits. The downtown strengthens its status as well as some traditional neighborhood centers (Benfica; Alvalade) and some commercial axes, which benefited from greater specialization.

In the early 70s, the retail landscape of the LMA was yet mostly confined to the Lisbon downtown. Innovations that occurred outside the traditional centers of commerce favored mostly food supply and did not bring much competition. This explains why traditional centers remained conservative and lacking innovation and modernization. In fact, after the political revolution of 1974, the most notorious changes in retail occurred due to the Brazilian group Pão de Açúcar in association with the Portuguese industrial group CUF. The partnership had several supermarkets with a considerable dimension of over 1000m² as well as parking in Lisbon (Olivais, Alcantara and Campo Grande), other under-equipped cities (Almada, Amadora, Barreiro, etc.) and places with high purchasing power (Cascais).

The transition to a democratic regime interrupted the incipient process of modernization in commerce, which was only resumed in the next decade. In the mid-80s, two main retail concentrations (Amoreiras Shopping Center and the axis Av Roma / Av Guerra Junqueiro) emerged in the outside of the city center and, in the early 90s, the Cascaishopping (73,000m²

of GLA) surged as the first large shopping center built in the periphery of the capital (28km west from the center of Lisbon). In the mid-90s, the Baixa Pombalina had approximately 700 retail stores, occupying a total area of around 83,000m², mostly directed towards personal equipment (51%) and leisure/culture (20%) (CML/DEUC, 1997). In 1998, the triad “Downtown-Amoreiras - Roma / G. Junqueiro Axis” faced the fierce competition of Colombo Shopping (120,000m²) and Vasco da Gama Shopping (47,700m²) and later in 2001 of El Corte Ingles (more than 40,000m²). On the urban periphery, the malls proliferate, diversify and acquire hybrid formats. Each of these waves of change reshaped the retail landscape and altered profoundly consumer expectations.

Nowadays, LMA has 2.8 million inhabitants, more than 40 shopping centers and around 4,000 stores comprising 1.2 million m² of GLA¹. The catchment areas overlap and each of the centers develops differentiation strategies to attract customers in a very competitive market. The APCC (Portuguese Council of Shopping Centers) does not integrate all the shopping centers of the country but it represents more than 85% of the universe, including all the main players (Sonae Sierra, Mundicenter, Commerz Grundbezits Invest., Chamartin, Immochan, Klépierre, etc.). In 1985, four centers of APCC were located in LMA. Since then, the APCC increased its number of centers, shops and GLA until 2009 but has lost relative importance due to the opening of centers in the second largest metropolitan area in the country (Oporto), average coastal cities (and Funchal in Madeira) and smaller urban centers throughout the country, including the interior.

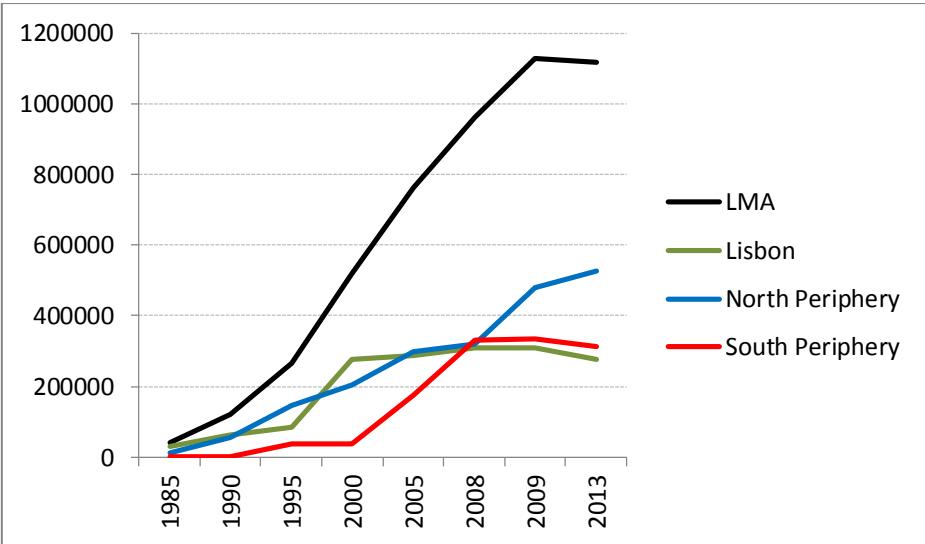
In 2009, the market has shown symptoms of saturation and the economic and financial crisis has accelerated the negative trends in the sector (see Table 2). The APCC has lost almost 30 members, nine of which just in LMA. This diminution was more pronounced in the number of centers than in number of shops and GLA, revealing that the majority of these members were not influential. In fact, some of them were not shopping centers but supermarkets or hypermarkets with small commercial galleries. Others remain active in the field but abandoned the APCC. The decrease in the number of shopping centers and stores was more accentuated in the country than in LMA (see Figure 3) but the greatest losses occurred in Lisbon in the three variables considered (see Figure 4). This finding may be symptomatic of a process of selecting commercial spaces that seems to occur in LMA, and especially, in the city of Lisbon. In fact, some of the larger centers with highly professional management remain with an occupancy rate of about 100% even though by reducing the number of stores

¹ These values differ from the ones presented in Table 2 because they consider only the shopping centers integrated in the APCC.

and inducing an increase in their average size and undertaking renovations, maintaining and sometimes expanding the GLA (APCC, 2014). Most other centers tend to have low occupancy rates so they search for strategies of concealment, such as the enlargement of the stores' areas to avoid enclosed spaces, false walls to cover up unused spaces, décor to fulfill the front of the stores, use of spaces for non-commercial purposes such as customer support, playgrounds, and information, among some others.

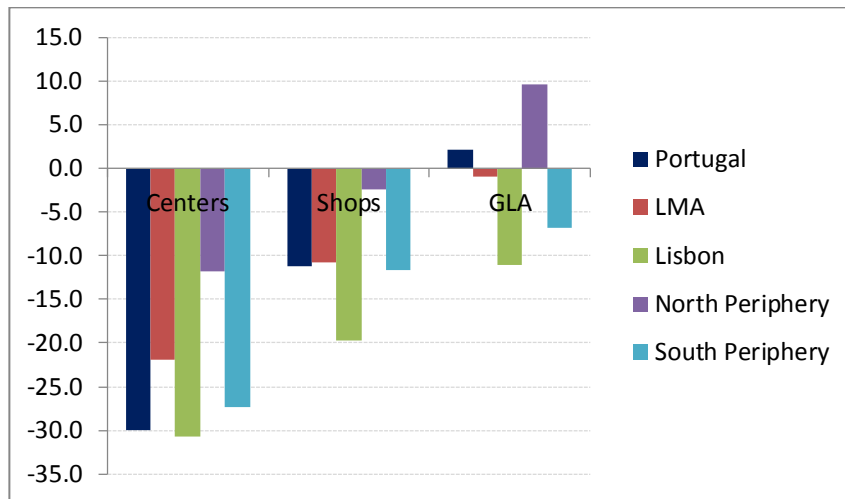
		1985	1990	1995	2000	2005	2008	2009	2013
Nb centers	Portugal	4	14	27	46	73	117	127	89
	LMA	4	9	15	25	34	38	41	32
	LMA/Port (%)	100	64	56	54	47	32	32	36
Nb of shops	Portugal	392	837	1811	3838	6458	8569	9286	8247
	LMA	392	615	1087	2171	3127	3519	3935	3512
	LMA/Port (%)	100	73	60	57	48	41	42	43
GLA (m ²)	Portugal	42386	181864	514537	1000195	1706871	2610113	2895384	2664827
	LMA	42386	120239	267440	520496	761696	960961	1126834	1115803
	LMA/Port (%)	100	66	52	52	45	37	39	42

Table 2: Evolution of shopping centers in Portugal and Lisbon Metropolitan Area (1980-2013)
 Source: APCC, Portuguese Council of Shopping Centers



Source: APCC

Figure 3– Evolution of shopping centers GLA (m²) in LMA (1985-2013)



Source: APCC

Figure 4 – Shopping centers in LMA: change rates of centers, shops and GLA (2009-2013)

An analysis of the directories of 20 leading commercial centers in LMA has shown that they have approximately 3,000 stores spread over about 1050 brands, with a predominance of fashion and personal items (41.2%), restaurants (19.1%) and sporting goods, recreation and culture (10.2%). A common feature is the homogeneity of supply between the various centers, reflecting the presence of several groups that assume chief importance like Inditex, Cortefiel, etc.. It was also found that 587 brands have only one store and 273 have only between 2 and 4 stores. This means that 82.5% of the brands have less than 5 stores or that only 67 brands have 10 or more stores.

In turn, street retail in prime areas of Lisbon (Chiado and Liberty Avenue) seems to be countering the cycle and present high dynamism owing to tourist demand, exiting from a long period of stagnation and struggle to adapt to the market. In 2011, Cushman & Wakefield estimated a GLA of 187,000 m² for the high streets of Liberdade Avenue (33,000 m²), Chiado (35,000 m²), Baixa (96,000 m²) and Restauradores (23,000 m²). A census carried out by the author in June 2014 on the functions of retail and services identified about 200 functional units (trade, various services, banking, insurance) in ground floors on Liberdade Avenue and over 100 stores in Chiado (R Garrett / R. Carmo / R. Nova do Almada), to which must be added the Warehouses of Chiado shopping center with about 50 stores. This latter was opened in 1999 with about 10,000m² of GLA and played a central role in the commercial revitalization process of Chiado that went through a difficult period following the fire of 1988. Other key factors for the commercial recovery of Baixa / Chiado included the

remodeling of the subway network and the opening of a brand-new station (1998), the creation of many parks in the surrounding area and the creation of spaces for pedestrians like Augusta Street and Comércio Square.

Recently, major international brands (mostly international luxury brands) elected the Liberdade Avenue to open their prestigious stores. Some have in this avenue their only store in Portugal but even those that are present in shopping centers aim to differentiate their offer in Liberdade Avenue. In Chiado, prevailing brands are geared to young and trendy. The rents are about 90€/ m²/month in Chiado (Cushman & Wakefield) and perhaps a little higher for certain parts of Liberdade Avenue. These values are higher than in shopping centers (70€/ m²/month). The dynamism of retail in these prime zones reflects higher footfall and growing touristic demand with a strong purchasing power. As in other European cities Lisbon is undergoing a process of commercial gentrification.

4. Conclusions and discussion: do shopping centers in Greater Lisbon have a future?

Over the past 30 years the structure and commercial landscape of Lisbon and its metropolitan area experienced a profound transformation, following the economic and social changes after the entry into the EEC. Shopping centers have played a key role in this transformation.

In Lisbon, the downtown lost the hegemony of qualified offer; in the mid-80s, it emerged Amoreiras Shopping Center and the Roma Avenue and Guerra Junqueiro axis; at the end of the millennium, Colombo and Vasco da Gama shopping centers have imposed themselves on the outer ring of the capital. In the periphery, several malls of medium and large dimension have mushroomed, with a diversified offer through trending towards trivialization of brands. The improvement of road infrastructure, the increase in motorization rates and a stronger purchasing power enabled consumers to visit the various shopping centers but as they multiply there seems to be a tendency to shop in the nearest. One potential route to address the trivialization of malls is the recovery of the traditional center, based on the paradigms of compact and sustainable cities. By doing so, the city comes to life. Nonetheless, it is not clear whether this is a structural trend or just a consequence of the cyclical economic downturn. Indeed, the return to the center seems to have become highly selective, targeting segments outside the center, the city or even the country.

Given these contradictions, we shall ask whether shopping centers have a future in the Metropolitan Area of Lisbon. The answer is not easy, nor consensual. Successful shopping centers must be able to meet the challenges posed by high levels of market saturation and the lasting effects of the crisis. Competition was high and just became fierce.

The recent crisis is erasing the "middle class" and leading to social fragmentation, which affects the retail geography of LMA. The elites have a luxury offer in the Liberdade Avenue and Chiado (prime zones of central Lisbon), while the working classes make fewer purchases and more often in fairs, street markets and Asian stores. Without a vibrant middle class, shopping centers in the LMA were strongly affected in a variety of ways: some centers become outlets; others had to close; the mix, size and location of stores changed; many centers have stores closed; market rental values and capital growth decline; the strategies to improve the attractiveness were redesigned; and companies looked overseas markets.

In recent times, consumers have changed their spending behaviors particularly in *how*, *what* and *where* they shop. Now, *needs* are more important than *desires*. The recession had a strong impact on consumers and their spending but we cannot say that the recession is the only cause of this shift in the consumers' behavior. They are more prudent, self-controlled and focused in how they spend. They pass less time in the shopping, shop less and visit fewer stores. Convenience and discount stores, located near the residence, had a recent strong growth and are more and more visited. These stores make a fierce competition with hypermarkets. So the power of hypermarkets as anchors of shopping centers is declining and affects the center as a whole. All these trends are not good for the success of shopping centers.

To prosper in the future, shopping centers in LMA will need to embrace the change and reinvent to attract the consumer. The current recessive environment leads to a selection process that excludes the ones that are not able to change. Possible or already emerging trends stand out: qualification of the offer and the service, positioning for a most select and affluent clientele; valuing other experiences beyond the retail experience like entertainment, education, sports, new lifestyles (lifestyle centers); adjusting size and supply to the population and scale of the neighborhood, enhancing integration with the community and developing a sense of place through design, ambience, authenticity and tenant *mix*; changing to an outlet philosophy.

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