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Commercial Classroom: The impact of Sears' bankruptcy - by Edward Smith

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Edward Smith, Jr.,
Smith Commercial Real Estate

This column is offered to help educate agents new to commercial and investment brokerage and serve as a review of basics for existing practitioners.

Sears is closing 140 stores before the end of 2018. They may also have to liquidate all of their roughly 700 existing stores if it can't pull together enough financing to stay alive.

Simon Property Group, the largest mall owner in North America (175 malls and outlet centers), Washington Property Group (owner of 106 malls), Kimco Realty (owner of 510 shopping centers) and other major mall owners all agree the demise of Sears is an opportunity.

They may have to pay millions or billions to renovate the empty spaces and suffer temporary loss of rents between tenants, but in the long run malls and centers will be revitalized.

In the future many will effectively become "mixed-use" consisting of retail stores, casual restaurants, entertainment and even grocery stores or hotels.

"The mall of the future doesn't need five, six...department stores," said Simon Property Group CEO David Simon. "The ability to reclaim [those spaces] allows us to diversify our properties. And I think we have that opportunity in a rather large scale."

While outdated department stores are going dark, Simon also said the smaller, specialty shops inside the malls are thriving, and their sales are actually up.

"Simon has diversified the types of tenants it usually courts to fill empty stores, replacing an old Belk department store at Phipps Plaza in Atlanta with a Nobu hotel, office space and a 90,000 s/f Life Time Athletic center. Landlords are also starting to look at co-working spaces and apartments as other fillers."

Historically when malls were being developed "anchor" tenants like Sears would be sought after as they would draw the customers to the mall and consequently be charged very low rent. These large stores vacancies would now provide room for several new tenants paying market rents.

"Simon says it will spend more than \$1 billion in capital to redevelop the 33 Sears stores it has in its portfolio that either have already shuttered or are expected to close later this year. Washington Prime Group, which has 28 Sears locations in its portfolio slated to go dark, says it's allocating up to \$325 million of capital to renovate them for new tenants. The latter also said last week it's now expecting net operating income to decline about 2% in fiscal 2018, primarily because of Sears."

Millennials are 26.9% of all shoppers and the oldest people in the iGen will be 24 in 2019. Shopping mall owners are saying Sears' bankruptcy allows them to bring in new tenants that appeal to these groups: Entertainment venues mixed into the retail centers, movies, bowling, fitness centers and casual restaurants. The new descriptive term will be "Blended Retail."

Kimco CEO Conor Flynn said, “While some legacy retailers have been unable to adapt and compete in the new environment, resulting in reorganization or liquidation, there are many more savvy, well-capitalized and experienced retailers who have successfully adapted their business models and are flourishing.”

“We are also seeing many new and creative concepts stepping in and grabbing market share at a rapid clip.” (Above quotes by Simon and Flynn are from a report by Lauren Thomas, Retail Reporter for CNBC.)

Traditional stores are expanding product lines to also take advantage of Sears closures; Sears was once the dominate appliance retailer. Bloomingdale’s Department Stores, known for its vast selection of handbags, high heels and designer dresses, is now focusing on higher-end appliances. On November 19th, 2018, it opened a shop selling LG Electronics appliances within its flagship department store in New York on 59th St., and will also start selling those items on its website. Bloomingdale’s will take the floor where it houses home goods to turn it into an “LG Signature” experience. There, shoppers will find items like LG Signature TVs, counter-depth refrigerators, washer/dryer combos, air purifiers and dishwashers.

Edward Smith, Jr., CREI, ITI, CIC, GREEN, MICP, CNE, is a commercial real estate consultant, instructor and broker at Smith Commercial Real Estate, Sandy Hook, CT.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540