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Credit Suisse predicts 25% of US malls to close by 2022



Photo courtesy of the CoStar Group

Malls such as The Shoppes at Carlsbad, have had to reinvent themselves to compete in today's retail environment.

By Thor Kamban Biberman

In a recent report, Credit Suisse predicted that a quarter of U.S. malls will disappear by 2022, but local retail brokers are dubious about the claim.

The Credit Suisse pronouncement was included within a Cushman & Wakefield Retail Trends webcast presented by Garrick Brown, vice president of retail intelligence for Cushman & Wakefield, and Pamela Flora, the firm's national research director.

"That seems pretty dire," said Bill Thaxton, a senior vice president with the commercial real estate firm Flocke & Avoyer. "What I will say is 25 percent of them will need -- and see -- some sort of redevelopment during [the next three years]."

Horton Plaza, which has roughly 850,000 square feet of retail, was sold last year and new owner Stockdale Capital has plans to convert the mall into a high-end office property with a much smaller retail footprint.

The University Towne Centre mall recently underwent a \$500 million renovation and expansion, and it now has office, entertainment, and residential uses to go along with retail.

The Shoppes at Carlsbad, likewise, has been updating its offerings and has set aside land for a potential residential development.

Mike Clark, executive director of Main & Main, and Thaxton said San Diego County's malls have generally good locations.

"Department stores are being repurposed, and they have a lot of parking," Thaxton said.

"These malls are really well-located," added Clark, who has helped put tenants into The Shoppes at Carlsbad and University Towne Centre for years. "What's changed is why people are going. They are going to be entertained rather than going to shop."

Clark said he is seeing upscale restaurants taking the place of food courts, and noted that some of the space formerly reserved for department store parking is now being used for restaurants.

"That's something that is happening all over, and you would never have seen it 10 years ago," he said.

The Cushman & Wakefield report isn't enamored with the restaurant business, which it says has long been oversaturated. That said, the report added there is room for some more food halls, craft brewing, and restaurants that have entertainment.

"People are looking for experiences," Clark said.

Although the Cushman & Wakefield report is not nearly as bleak as the Credit Suisse prediction, it noted there have been 5,000 store closures announced this year nationwide "and we're only in April."

The report stated the number of store closures for 2019 will grow to about 9,000 with about 12,000 shuttering its doors in 2020.

Given these realities, Clark, like Thaxton, said that changes to malls will be necessary for them to survive.

"They'll definitely have to evolve," Clark said, adding that some may have difficulty changing quickly enough.

As stores such as Sears, Payless Shoesource, Charlotte Russe, Victoria's Secret, and Abercrombie & Fitch vanish from the landscape, Cushman & Wakefield warns there are many more that could be pushed over the edge.

The report says the jury is out as to how a slimmed-down version of Sears, known as Sears Home & Life, will fare. The first three stores are expected to open in May in Anchorage, Alaska; Lafayette, La.; and Overland Park, Kan.

Topping the brokerage's list of most vulnerable stores are GNC and PetSmart. Competition with San Diego-based Petco could be a factor for PetSmart.

Petco may not be not immune either, according to the report. Both it and PetSmart are faced with leveraged buyout debt that could impact their balance sheets.

Cushman & Wakefield added that even such apparently well-heeled companies as Albertson's, Land's End and Neiman Marcus have leveraged buyout debt that could have an impact on those companies as well.

Other retail chains with issues include J. Crew and Pier 1, which has filed for Chapter 11 bankruptcy.

Not every retailer is shrinking its footprint. Many plan to increase the number of stores in their portfolios.

Both Dollar Tree and the Dollar General discount chains have roughly 14,000 stores. Dollar General announced it expects to add 975 locations, while Dollar Tree has said it could add 350 locations.

Starbucks, which also has roughly 14,000 stores, plans to add about 350 stores of its own this year.