

Challenging Months Ahead for Shopping Center Owners

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As the number of retail store closings continues to rise, landlords in the retail sector should brace for falling rents and declining occupancy. Property & Portfolio Research expects the final tally of store closings for the year to climb to more than 6,000, compared with 4,600 closings in 2007. As of mid-August, Boston-based PPR reports 5,300 closings.

The breadth of the closings has caught the industry off-guard. "The industry believed that you were just going to see the Home Depots of the world, the furniture stores, the 'Granite counter tops are us'-type retailers get hurt. They are surprised to see how quickly it spread to other types of retailers," says Suzanne Mulvee, a senior real estate economist with PPR.

Of the store closings tracked by PPR, 46% are located in malls and about 43% in strip centers, with the remaining stores tied to big-box retailers. The current retail vacancy rate nationally is 11.8%, according to PPR. The firm forecasts the vacancy rate to rise to approximately 13% by the end of 2008 and 14% by late 2009.

Considering the softer occupancy, PPR expects rent increases in the retail sector to decline 1.7% this year, which means landlords will have to give back the 1.7% rent growth seen in 2007. PPR forecasts retail rents to drop 0.5% in 2009.

One beneficiary of the rising number of store closings is Lake Success, N.Y.-based Excess Space Retail Services, which helps retailers restructure leases and dispose of unwanted properties. Excess Space expects to work on 3,000 or more store lease restructurings this year, a 50% increase from the 2,000 restructurings the company worked on last year.

"Business is booming. It will be very robust for us this year and for sometime into the future," says Michael Weiner, president and CEO of Excess Space.

Landlords are becoming creative in dealing with lease terminations and restructuring leases so that they can maintain occupancy levels, according to Weiner. They are increasingly receptive to rent concessions and subleases.

"Landlords are more open to the tenants we bring them instead of raising objections. Right now, many of them are just happy to see the spaces get filled as long as the tenant isn't hurting any of the other tenants they have," says Weiner.

Excess Space's business is growing, especially in states that are at the heart of the housing downturn, such as Florida, California, Nevada, and Arizona. In these states, "The economic climate is bad, and we see a lot of additional sites being added to the portfolio," says Weiner. "People don't have discretionary income, and they are severely hurt by the impact the housing market (downturn) has had."

Apparel stores accounted for about 35% of the 2,831 store closings tracked by the International Council of Shopping Centers (ICSC) in the first half of 2008. The retailers that added to this tally include Wilson's Leather, Goody's Family Clothing, Ann Taylor, and Geoffrey Beane-outlet stores.

Retailers focusing on home entertainment, home furniture and furnishings, and food and beverage have also been at the forefront of the store closings during the first half of 2008.

About 6.5% of the store closings through the first half of 2008 tracked by the retail industry trade group were in the home furniture and furnishings niche, one that moves in tandem with the housing market. However, this is an improvement considering that this niche accounted for more than 14% of store closings in the first half of 2007, and about 34% of the closings in the second half of 2007, according to ICSC.

"The stores that are more susceptible to slowdowns in the economy are the stores announcing closings," notes Abigail Marks, an economist with CBRE Torto Wheaton Research in Boston. "Consumers have less discretionary income right now, so non-essential goods such as clothing are struggling with sales. Thus, some clothing retailers have to close stores."

PPR's Mulvee anticipates that, following a soft 2008 Christmas season, the first quarter of 2009 will likely be another big quarter for store closings with as many as 3,400 closings projected.