

Key Takeaways from Real Estate and Finance Forum

Presentation on "America's Brick-and-Mortar Retail Stores – A Vanishing Act in an Online Shopping World"

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On November 2, 2017, we held a lively and informative panel presentation, "America's Brick and Mortar Retail Stores – A Vanishing Act in an Online Shopping World," as part of our Real Estate and Finance Forum series. The panel included speakers from the lending, developer, brokerage, appraisal and legal communities. The panelists provided an update on the current climate of the retail market in the US and Philadelphia metropolitan area and presented the challenges and opportunities that have arisen as a result of shifts in consumer purchasing behavior. Click here to see the slide presentation on retail store and online shopping statistics and trends.

Here are some of the takeaways from the panel discussion:

- The United States' overall retail market remains strong, but is changing and seeking to re-balance itself. The retail store market is not about to fall off the cliff. Overall retail sales (including eCommerce sales) in the US continue to grow each year.
- As the retail market continues to evolve, lenders are more carefully underwriting financings of retail properties, in particular the viability, rental rates and terms of existing or anticipated tenants. Many mall owners are redeveloping/repurposing their centers, and tenants are more aggressively negotiating rents and tenant improvement allowances, especially in locations with higher vacancy rates or in centers where anchors have closed.
- eCommerce retail sales as a percentage of overall sales in the US and Western Europe are approximately 8.2%, compared to 12.1% in the Asian Pacific market. Online retail sales as a percentage of overall sales here have grown rapidly though, doubling over the past seven years from about 4% in 2009 to 8% in 2016 and will continue to expand.
- Since the beginning of the Great Recession in 2008, about 3,400 retail stores on average have closed each year. The closure of a substantial number of brick and mortar retail stores nationwide is the result of many market forces such as an oversupply of retail space, high rental rates, greater competition and changes in consumer shopping, including the continued growth of online shopping.
- The US is over-stored with 48.5 retail square feet per person (RSF/Person), compared with 23 RSF/Person in the United Kingdom, 13 RSF/Person in Canada and 6.5 RSF/Person in Australia.
- The eCommerce market is dominated by Amazon which accounts for approximately 43.5% of eCommerce sales in the US.

- Many department stores and other national retailers are downsizing and experimenting with smaller store footprints to promote their brands and drive customers to their online websites. For example, Nordstrom recently opened up its first store without onsite inventory for sale called “Nordstrom Local.” The Nordstrom Local store is only 3,000 square feet and features selected merchandise on display, dressing rooms for shoppers to try on clothes or have them tailored, online purchase pick-up and online buying stations, a bar and a nail salon.
- A-class malls and shopping centers continue to perform well because of their excellent locations with strong demographics and ability to attract national and other creditworthy and desirable retailers.
- The changing retail market and closure of more brick and mortar stores is especially hurting B/C-class malls and other retail locations in secondary or tertiary markets. The closure of anchor tenants (department store, supermarkets and other large national retailers) and in-line tenants has an adverse ripple effect throughout centers, reducing rental rates and revenues due to co-tenancy clauses and rent concessions made to retain tenants whose sales are declining.
- Many struggling retail centers have either been sold or foreclosed on at significantly discounted prices. The market has forced buyers and developers of many B/C-class retail properties to redevelop/re-purpose their centers as has occurred at the former Gallery in Center City Philadelphia and at many Philadelphia suburban malls such as Cheltenham Mall, Granite Run Mall and Plymouth Meeting Mall.
- Retail developers are using a variety of strategies to reinvigorate and reinvent their centers: demolition of enclosed malls to reduce operating expenses; reductions and relocations of parking areas to increase rentable retail square footage; adding more restaurants on pad-sites to increase foot traffic; and diversification of tenant mix by leasing to gyms and fitness studios, coffee shops, day care centers, dance studios etc.

If you have any questions about the presentation or if you would like to discuss any matters impacted by the changing retail market, please contact Maulin Vidwans (vidwansm@whiteandwilliams.com; 215.864.6369) or Steven Ostrow (ostrows@whiteandwilliams.com; 212.714.3068). We welcome your questions and any suggestions for future presentations on current topics affecting the real estate or finance industry.

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