

# Bankruptcies Leave Trail of Retail Casualties

At least eight retailers have declared bankruptcy since last fall, according to a New York Times report published last week. Retailers mentioned in the Times article were The Bombay Co., Domain Home, Fortunoff, Harvey Electronics, Levitz, Lillian Vernon, Sharper Image and Wickes.

“There have been more retail bankruptcies in the last seven months than in the past three years,” Ivan L. Friedman, president and CEO of RCS Real Estate Advisors in New York City, told SiteTalk. “It is carnage in the retail arena.”

RCS Real Estate Advisors is handling the disposition of stores for several of the bankrupt companies, including Domain, Sharper Image and Wickes. The firm is also helping healthy retailers dispose of underperforming stores. “Sales are off, and they want to preserve cash, so retailers are paying a lot of attention to the bottom 10% to 15% of stores,” said Friedman.

All told, the International Council of Shopping Centers (ICSC) expects 5,770 stores to close this year through either liquidations or cutbacks made by solvent chains.

Chains that do file for Chapter 11 protection in order to reorganize may not make it, given the new bankruptcy law enacted in 2005. Prior to 2005, retailers had plenty of time to reorganize. The law provided 90 days plus virtually unlimited extensions to decide which stores to keep and which to give back to the landlord.

Responding to lobbying landlords who wanted their property back sooner, Congress put a firm deadline into the new law. Retailers declaring bankruptcy must now decide to assume or reject leases within 120 days. The courts can extend that limit, but by no more than 90 days, up to a total of 210 days.

“That’s not long enough,” said Friedman. “Banks that finance retailers hold liens against the inventories. They will sell the inventory to get their money back. And they need store locations to do that.”

“It takes 80 days, more or less, to liquidate a retailer’s inventory. So the bank wants to see an acceptable reorganization plan within 90 days or it will move to use the remaining 120 days to liquidate the inventory. Ninety days isn’t enough time to develop a plan, correct the business, find funds or find a buyer. Only a handful of companies have managed it.”

In other words, expect more liquidations.

How long will the carnage last? “I don’t think we’ve hit bottom yet,” Friedman said. “I think it will take another six months to find out how bad it is going to get.”

## Look for Growth From Emerging Markets

Forty percent of international retailers expect emerging markets to provide their main source of growth over the next five years, according to a CB Richard Ellis report published in early April.

The “Global Emerging Markets Survey” tabulated the views of 300 retailers with more than 25,000 stores doing business around the world.

The most sought-after emerging market? India. Twenty-seven percent of international retailers surveyed opened their first store in India in the past year or will soon open a store.

The Ukraine and Russia ranked as the second and third most popular emerging markets.

“Today, international retailers are focused on BRIC countries,” Naveen Jaggi, a senior managing director of retail services with CB Richard Ellis, told SiteTalk. “That is an acronym for Brazil, Russia, India and China, which are the emerging markets that retailers see as having the greatest growth potential.”

The appeal of emerging markets lies in their enormous size and, so far, the absence of international retail competition. As barriers to entry such as economic instability and limits on foreign ownership continue to fall away, more and more international retailers are investigating emerging markets.

“Retail sales in these countries are growing at a rate of 7% to 8% and higher,” Jaggi added. “In the U.S. and old Europe, annual same-store sales grow at a rate of about 3% during good times and 1.5% to 2% when the economy slows.”

According to the Emerging Markets survey, international retailers based in Europe generally prefer emerging markets in Asia to those in the Americas, while Western retailers seem to fit better culturally with Latin America and Russia.

It may come as a surprise to a U.S. audience that most international retailers are based in Europe. Europe encompasses more than 30 countries, Jaggi pointed out. So a French brand in Spain is an international brand. Geography makes it natural for European retailers to adapt their offerings to different international markets. By contrast, Talbots in New York is Talbots in San Francisco.

Still, plenty of North American retailers are operating in international markets. Costco, for example, operates stores in Canada, the U.K., Taiwan, Korea, Japan and Mexico. Based in St.-Laurent, Quebec, the Aldo Group, a footwear and accessories retailer, has about 1,300 stores in more than 35 countries across North America, Europe, the Middle East, Africa, Asia and South America. There are many other examples. The point is, international retailers in search of growth are turning to the world’s emerging markets.