

# Is the American mall dying?

With retailers closing stores en masse and some going bankrupt, experts debate whether malls may be the next to go.

By Elizabeth Strott, *MSN Money*

Is it the end of shopping as we know it? Consumers are tightening their purse strings, retail chains are closing up shop, and developers are on the brink of going under.

This could be doomsday for the American mall.

## Deathwatch

"It's an absolute disaster," said Howard Davidowitz, the chairman of Davidowitz & Associates, a national retail consulting and investment banking firm. "What a mall represents is discretionary spending, and discretionary spending is in a depression."

Results at anchor stores, the nationally known retail names that draw shoppers to malls, have been rotten.

Macy's recently announced plans to close 11 stores across the country and said it will eliminate 7,000 jobs. The company slashed its stock dividend in anticipation of an ugly 2009.

January same-store sales were brutal: Saks posted a 23.7% drop, J.C. Penney reported a 16.4% decline, and Bon-Ton Stores saw sales fall 8.2%.

The declines come against a stark backdrop: Circuit City, Linens 'n Things and The Sharper Image, all of which have or had many stores in malls, filed for bankruptcy protection last year. Those companies alone are responsible for hundreds of store closings.

Dillard's and J.C. Penney are expected to close underperforming stores this year, as are Starbucks, Ann Taylor, Foot Locker and Gap.

Many malls across the country suffered a blow when discount retailer Steve & Barry's, which had filed for bankruptcy last summer, announced in November that it would close its remaining 173 stores. Many in the business regarded Steve & Barry's as one of the anchors in the mall business.

"Without the anchors, there is no mall," Davidowitz said.

Meanwhile, credit rating companies are tightening the screws. In early February, Standard & Poor's put the ratings of six department store chains on "credit watch" negative. Macy's, Nordstrom, Sears, J.C. Penney, Dillard's and Neiman Marcus could all soon see their credit ratings lowered. In that event, the companies would find it harder to borrow money and would likely pay higher interest rates.

S&P analyst Diane Shand wrote in a note to clients that the credit actions "reflect our deepening concern about the impact of the U.S. recession on the increasingly troubled department store sector, which felt the full brunt of the declining U.S. economy and weakening consumer confidence in 2008."

## Developers face the music

The slumping retail industry means a lot of worry for the

people who build and own the malls. The presence of anchor stores is written into lease terms at many malls. Mall developers actually pay the anchor retailers—from \$2 million to \$6 million per store—to become shopping center tenants, Davidowitz explained.

Leases for smaller stores include guarantees that the anchors will be present. If mall owners can't fill the anchor spaces vacated by Steve & Barry's, Macy's or other retailers, many other leases will be in jeopardy.

"If the big guy closes up, then none of the little guys are going to get the business. There will be precipitous closings of stores within the lower-tiered malls," said Ivan Friedman of RCS Real Estate Advisors.

The doomsday scenario has crushed the share prices of some developers. Shares of the country's second-biggest mall operator, General Growth Properties, have plummeted below \$1 as investors have become increasingly concerned about debt load.

General Growth has received several loan extensions, including one in early February, giving the company more time to find stable financing. But if the company can't meet payments due March 15, it may be forced to file for bankruptcy protection.

Finding credit has been a huge problem for mall developers. A good many lack long-term financing. That's pivotal in today's environment, as many banks are struggling to survive and the commercial-credit markets remain extremely tight. General Growth and other developers such as Simon Property Group and Vornado Realty Trust have hundreds of millions more in debt due this year.

General Growth's difficulties could lead to a merger with Simon Property down the road, said Rich Moore, an analyst at RBC Capital Markets.

"But that is not likely to happen in the near term because the debt markets are so bad," Moore said. "So for now, GGP just limps along."

## A domino effect

The International Council of Shopping Centers forecasts that 73,000 U.S. stores will close in the first half of this year. Shoppers will be staying home in the next few months, according to ShopperTrak's Retail Traffic Index. The index forecasts U.S. foot traffic in malls to decline by 16.4% in the first quarter, down from the same quarter of 2008.

For the full year, Davidowitz predicts that more than 200,000 stores will close. The National Retail Association believes the vacancy rate for retail properties will jump to 12.7% in the third quarter of this year, up from 9.8% in the third quarter of 2008.

Vacancy rates in the country's regional malls rose 7.1% in the fourth quarter of 2008, research firm Reis said. It was the highest vacancy rate since Reis began tracking the data in 2000. And the vacancy rate will likely move even higher at some of the nation's bigger malls, according to Property and Portfolio Research of Boston.

Vacancies at lower-end and smaller malls won't be quite so bad but "will be a lot more noticeable to the shopper," said Friedman. "Those malls, in the short term, will lose traffic, people will stop coming to them, and it will take a number of years for those malls to come back."

The pain of a dying mall is far-reaching. For many of the suburban municipalities involved, problems at the mall portend problems with the municipal budget.

"Malls generate so much tax revenue for the township, homeowners hardly have to pay any property tax. A dead mall means there's no choice for the town except to raise property taxes," retail expert Jim Quinn said.

Not all is doom and gloom in retail. But the big winner has no stores in malls: Wal-Mart Stores has benefited from the shift in consumer demand toward discounts on necessities.

"America is in survival mode. The American consumer is trading down; they're going to Dunkin' Donuts and McDonald's. They're not going to pay for designer coffees at Starbucks," Davidowitz said.

## But maybe things aren't so bad

Some analysts see this year's problems more as a cyclical downturn than an epochal change.

"Retail is a constantly churning business," explained RBC Capital Markets' Moore.

He suggested that many retailers with big investments in malls are looking beyond the current economic picture, knowing they will have their stores in malls for years. Despite the gloomy news about store closings and bankruptcies, there are still 70,000 planned store openings over the next two years, Moore added.

"A lot of mall operators are welcoming a situation like Sears or Bon-Ton closing," Moore noted. Then they can "replace it with a better anchor like Nordstrom or put in a lifestyle wing, a restaurant or an outdoor space."

Another expert sees an opportunity for generational change.

"I wouldn't be surprised at all if you see the retailers restructuring and focusing on younger clients, anywhere from preteens to age 21," said Maurice "Moe" Veissi, the founder of real-estate firm Veissi & Associates. "They are the ones who have cash but don't have the other responsibilities that other people do."

The country's best malls, such as The Mall at Short Hills in New Jersey, the Roosevelt Field mall on Long Island and the King of Prussia Mall in suburban Philadelphia, may experience slight drops in occupancies, Friedman noted, but many shoppers might not even notice there's a recession going on.

"Ultimately, the American consumer loves to shop. I don't think that's going to change that much," Moore said. "As employment returns, which it always does, then the shoppers will return again as well."