REINCARNATION OF DEPARTMENT STORES AND SHOPPING MALLS PART 1

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Once the almighty shopping meccas that are located on the Main Streets across the nation and anchors of the shopping malls have recently been weathering blow after blow in the last two decades. We have seen JC Penney and Sears being upended by hedge funds, RH Macy's going through the closing of the stores, Barneys New York files for bankruptcy. The bad news has continued until the latest from the coronavirus pandemic that closed all the stores for months since March of this year.

For two seasons, spring and summer, department stores have been totally buried with unwanted clothing, and they have been pushed back along the supply chain that factories have cancelled orders of finished goods, work-in-progress, raw materials, and it is in a very devastating picture that we have never seen in our career.


Courtesy of: WWD

The better stores such as Lord & Taylor, their flagship on Fifth Avenue, gave way to WeWork last year, let go of its entire executive team lately. Nordstrom cancelled its orders and withholding payment to its vendors. The Nieman Marcus filed for chapter 11, followed by JC Penney. And the names extended to the specialty stores.

This pandemic has been tormenting the US since the beginning of March and it is now in its sixth month, and there is no sign that it is weakening. There are many reasons and the matter is becoming very political now. But the failure of the department stores has been going for a long time and this time we don't have any clue how this pandemic can be solved. There will be more failures along the way and it is almost inevitable.

This time of the year, when this article was written in July, the retailers would have mapped out for the most important season of the year, the winter holiday shopping season, but the stores still have tens of thousands of shop staffs furloughed, looking desperate for cash and trying to figure how to survive this crisis which has no end to it yet.

The upheaval caused by the pandemic will permanently change the landscape of the retail, relationship with the brands, supply chain, and all the relating factors that used to make it successful.

We have already seen the crumbling of the retailers with the number of stores that they have been operating, the failing of the brands and their standalone shops, and the seeking for the bankruptcy protection.

This report allows us to understand the current situation but unfortunately, it doesn't provide us any solution.

JCPenney

Once the department store chains were accounted for 30% of the total mall square footage in the US, a third of it was coming from Sears and JC Penney. Although it was also said that half of the mall-based department stores are to be closed in the next five years. This time, because of the pandemic, this would expedite the process. Before this, talks about the shifting from brick-and-mortar to e-commerce would have seen as an orderly retreat for the department stores, but now in such a short period, we have seen the business disappeared for obvious reasons as the uncertainty caused by the pandemic have led the consumers to be more concern with their jobs and their cautiousness with their spending is becoming understandable.

Earlier on we mentioned Lord & Taylor, which we learned that they were acquired by Le Tote, an online women's clothing business that uses a subscription box model, and they have to let go of the entire executive team and suspended payment to their vendors trying to conserve cash. Early Lord & Taylor filed for bankruptcy protection.

Macy's who owns Bloomingdale's extended payment to their vendors to 120 days from 60 days. The company has also dropped from the S&P 500 stock index in March due to its valuation.

Courtesy of: mallatmillenia.com

Neiman Marcus filed for bankruptcy protection on May 7, and it was said that it would close some of its stores, some Bergdorf Goodman stores and some Last Call discount stores. It was the first victim of the department stores to have failed during the Covid-19.

After struggling for so long, JC Penney filed for bankruptcy on May 15, the last we learned that they have 846 stores. In its peak time, JC Penney was operating 2,000 stores in 1973.

All these have hit the largest mall owner in the US very badly. Simon Property Group along with the department stores have been struggling for years have forced to come to some decision during the pandemic. Inside the mall, the big-box spaces are typically more than 100,000 square feet, and very often they are in split levels. The smaller tenants have counted on the foot traffic of the department stores for their business. If the department stores stay empty, then their survival would be jeopardized.

Courtesy of: wbol.org

Simon's malls are normally well-located and give easier access from the nation's busiest highways and residential developments. All the malls have a large parking area with ample parking spaces spread out from all the mall entrances.

In order to lease out the empty store space, Simon Property Group is found negotiating with Amazon. Amazon.com the archenemy of brick-and-mortar retailers are showing interest to expand their distribution hubs. This is the result of the decline of malls and the boom in e-commerce. This pandemic has kept the customers to stay home and shop online and when the stores will reopen again, shopping online would become a norm as they would have found the convenience.

Courtesy of: housebeautiful.com

Amazon, in the meantime, is looking for more distribution centers close to the residential areas to speed up their deliveries. If Simon Property Group will surrender the retail space for distribution and warehouse space, the rent they will collect will be perhaps a fraction. Although with the Amazon fulfillment centers that will spring up across the nation, the workforce that they are currently looking to increase is in the millions, will increase eateries in the food court. Some convenience stores will also be needed to provide service to those employees. Simon Property would prefer to have other retailers, gyms, theatres, and entertainment operators to lighten up the malls, rather than offering prime retail spaces to Amazon for the warehouse.

Simon Property currently owns 204 properties all across the US. Using the space for training centers, medical hubs, shared workspaces, and daycare centers are the better fit than warehouses and distribution centers.

Perhaps it is too early to decide what is the best, but perhaps a combination of many different options as after this pandemic, it will be a new horizon out there.