

# REINCARNATION OF DEPARTMENT STORES AND SHOPPING MALLS PART 2

ANDREW SIA

Instead of sitting idly by and watching malls remain empty, US mall operator Simon Property Group is buying the biggest brands in the US clothing sector to help their own core business.

Simon Property Group was founded in Indianapolis in the 1960s and today is the country's largest mall owner, with a portfolio consisting of large centers including the King of Prussia Mall, in King of Prussia, Pennsylvania; Sawgrass Mills, in Sunrise, Florida; and Del Amo Fashion Center, in Torrance, California.



Simon Malls' major tenants are Macy's, Gap, Victoria's Secret, Apple, and Sephora. The coronavirus crisis has posed a threat to brick-and-mortar retailing as malls were ordered to close. Although 90% of Simon's tenants have reopened, foot traffic has generally remained very poor, and many tenants are unable or unwilling to pay their rent. In July, Simon collected only 73% of the rental payments due.

Recent retail bankruptcies, such as those of JC Penney, Neiman Marcus, and J Crew, and their filing for Chapter 11 bankruptcy protection, have allowed some retailers to get out of their lease agreements.

As a result, Simon's share price has dropped 53%, to its lowest level since 2009. Simon has slashed its dividends by 38% for the second quarter, reduced staff salaries by 30%, and held back investments by more than \$1 billion for future development projects.

To save one business, Simon became the part-owners of Brooks Brothers. This menswear retailer was founded two centuries ago, but entered into Chapter 11 in July. This latest endeavor was brokered by Blackrock's partner, Authentic Brands, a licensing specialist that owns *Sports Illustrated* and which bought Lucky Brand, a California-based jeans retailer, out of Chapter 11.

In early 2020, before the pandemic hit, Simon bought fast fashion purveyor Forever 21 in a deal with Authentic Brands and another large mall owner, Brookfield Property Partners.



At present, Simon has is showing interest in Nautica and Aéropostale.

It is debatable whether or not these purchases are a wise move. Other mall operators are skeptical, as these actions have only prevented those retailers, who are all Simon tenants, from entering into liquidation. Running clothing chains is a very different operation compared to managing real estate and collecting rents.

This behavior of Simon Property Group is best summed up by the expression, "Play with the hare and hunt with the fox."

From Statista, I have obtained information about shopping mall foot traffic across the country. It's not a pretty sight. The chart below refers to March 2020, when all of the shops were shut down because of the pandemic.

