



Issue Date: CPMI Online Exclusive, Posted On: 5/15/2009

Despite "Green Shoots," Retail Real Estate Faces Huge Challenges



Even though the apparent stabilization of the stock market is providing some hope that the worst of the recession is behind us, shopping center owners, investors, and tenants alike have fallen victim to a severe reduction in retail spending, according to the Colliers International Spring 2009 Retail Report. All of this has left store space vacant and same-store sales well below levels seen in recent years. Retailers have shown little interest in opening new outlets, and are instead waiting on the sidelines for economic conditions to improve and for a reasonable uptick on the jobs front.

In the meantime, a perfect storm has developed for retailers. The shrinking consumer dollar has essentially left the retail real estate market overbuilt and, as a result, the retail sector is in the midst of one of the greatest contradictions experienced in decades.

Among the highlights of the Colliers Spring 2009 Retail Report:

- Most chains will continue the trend of shuttering underperforming locations that began in 2008 (retailers closed more stores than they opened last year, and will do likewise in 2009).
- This fall-out could spread to otherwise well-run retailers due to plunging sales.
- Urban retail continues to outperform suburban retail, but even rents in the most fashionable urban shopping districts have declined downward.
- A number of markets have vacancy rates closing in above 12 percent.
- The strongest U.S. markets vacancy-wise share a common characteristic—development in these markets has been curtailed in recent years due to lack of available land.
- Neighborhood and community shopping centers are currently the most stable shopping center format.
- The collapse of anchor and junior anchor space users such as Mervyn's, Goody's, and Circuit City sent vacancies sharply higher for regional malls and power centers.
- Rents are, unsurprisingly, trending downward.
- General Growth Properties is the specter keeping landlords up at night. Large debt load coupled with an inability to refinance equals massive worries for landlords.

"On the bright side, this economy has not been without winners," remarked Ross Moore, executive vice president of market and economic research for Colliers International. "Discounters, such as Wal-Mart, have been recording same-store sale increases, and drug stores have been one of the most active retail categories in recent years."

Survival will be the name of the game in 2009, warned Pat Duffy, chairman of Colliers Retail Services Group. "Even for strong players, the emphasis will shift from store openings and expansion to streamlining operations."